esor
LIMITED

Integrated report ***2015***

Investment case

FY2015 was a year of consolidation and realignment. Heading into FY2016 our strategy has been fine-tuned for sustainable value creation, impacting in turn on our group structure and resources. Driven by market opportunity, we concentrate now on six focused operational/delivery disciplines. Management is decentralised with each discipline steered by seasoned management, who are supported by an efficient central corporate team.

Our competitive strengths

- Multi-disciplinary offering for diversification
- Superior gradings and SHEQ accreditations
- Level 3 B-BBEE
- Standardised reporting systems
- New and well-maintained plant
- Specialised skills
- Cohesive group values
- Recognised brand
- Key equipment owned in the group
- Established efficient central team

Vision

To be the benchmark construction group in Southern Africa, committed to the fulfilment of all our stakeholders' aspirations.

Core values	How we live our values			
Unity	Cohesive group values in place	Employee culture effectively revitalised	Improved employment equity practices	
Integrity	Maintained B-BBEE Level 3 accreditation	Investment in enterprise development	Anti-competitive legislation training	Code of Ethics
Accountability	Standardising of reporting systems	Contracting practices effectively revised to mitigate the recurrence of contract losses	Appointed seasoned management to lead the five disciplines	
Commitment	Enterprise development spend	CSI	Skills development programme	ISO 9001, 14001 and 18001 accreditations

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NAVIGATION KEY

www.esor.co.za page reference

SECTION

Scope and boundary

This is our fourth integrated annual report, for the year ended 28 February 2015. In this report we aim to explain our strategy, the key opportunities and risks in our markets, our financial and non-financial performance over the year and our expectations for the year ahead.

We focus on our material sustainability issues, which we determine through board discussion, market research, engagement with our stakeholders, continuous risk assessments and review of prevailing trends in our industry and the global economy.

The issues we have identified as material (in terms of the impact on Esor's long-term sustainability) include:

- Project execution
- Focused disciplines
- Liquidity
- Skills shortage
- Reputation
- SHEQ
- Growth

Sustainability issues that are not considered material to our business are not discussed in this report.

Scope of this report – as impacted by corporate restructuring

This report presents the annual financial results and the economic, environmental, social and governance performance of the group for the year 1 March 2014 to 28 February 2015, and follows our report for the previous year published in May 2014. Content encompasses all divisions and subsidiaries of the company, across all regions of operation in South Africa, Swaziland and in Zimbabwe. During the year under review the group operated through, and reports on, three core divisions:

> Esor Civils　　> Esor Pipelines　　> Esor Developments

As of 1 March 2015, Esor has been restructured into a focused construction and developments group to reflect the disciplines on which we intend to focus going forward. (See new structure on page 6.)

Reporting approach

The report is targeted primarily at current stakeholders and potential investors in the group. In compiling the report we were guided by international and South African reporting guidelines and best practices, and South African legislation including:

- Companies Act
- JSE Listings Requirements
- IFRS
- SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- King III
- International Integrated Reporting Framework issued in December 2013
- GRI (GRI G3.1 Guidelines). The report is compiled based on a self-declared Application Level C. The full GRI index is available on our website *www.esor.co.za*.

We undertake the following assurance to ensure reporting integrity:

Business process	Nature of assurance	Status	Assurance provider
Operational/financial risk			
Value of construction works secured (to be executed as at 28 February 2015)	• Secured order book confirmed	Reviewed	KPMG Inc.
Extent of construction contract profitability	• Contract profit or loss ratio	Reviewed	KPMG Inc.
Fair presentation of financial position of the group and company	• External audit report	Assured	KPMG Inc.
Internal audit	• Quality review	Assured	KPMG Services (Pty) Ltd
Empowerment			
Employment equity processes	• EE report	Assured	Department of Labour
B-BBEE	• B-BBEE scorecard	Assured	BEE Verification Agency cc
Quality			
ISO 9001	• External audit	Assured	SABS
Environment			
ISO 140001	• External audit	Assured	Dekra
Safety			
ISO 180001	• External audit	Assured	Dekra

Forward-looking statements

This integrated annual report contains forward-looking statements that, unless otherwise indicated, reflect the company's expectations as at 28 February 2015. Actual results may differ materially from the company's expectations if known and unknown risks or uncertainties affect its business, or if estimates or assumptions prove inaccurate. The company cannot guarantee that any forward-looking statement will materialise and, accordingly, readers are cautioned not to place undue reliance on these forward-looking statements. The company disclaims any intention and assumes no obligation to update or revise any forward-looking statement even if new information becomes available as a result of future events or for any other reason, save as required to do so by legislation and/or regulation. The group's external auditors and/or assurance providers have not assured these statements.

Responsibility statement and review

The audit and risk committee and the board acknowledge their responsibility to ensure the integrity of this report. It has been reviewed by the audit and risk committee, the board, company secretary, sponsor and investor relations consultants. The financial statements included in this integrated report have been audited by the external auditors.

We are one of only a handful of South African companies which publish our integrated report on the day we release results on SENS. The board of directors therefore approved this report on 21 May 2015.

Wessel van Zyl
CEO

Bruce Atkinson
CFO

Heather Sonn
Chair audit and risk committee

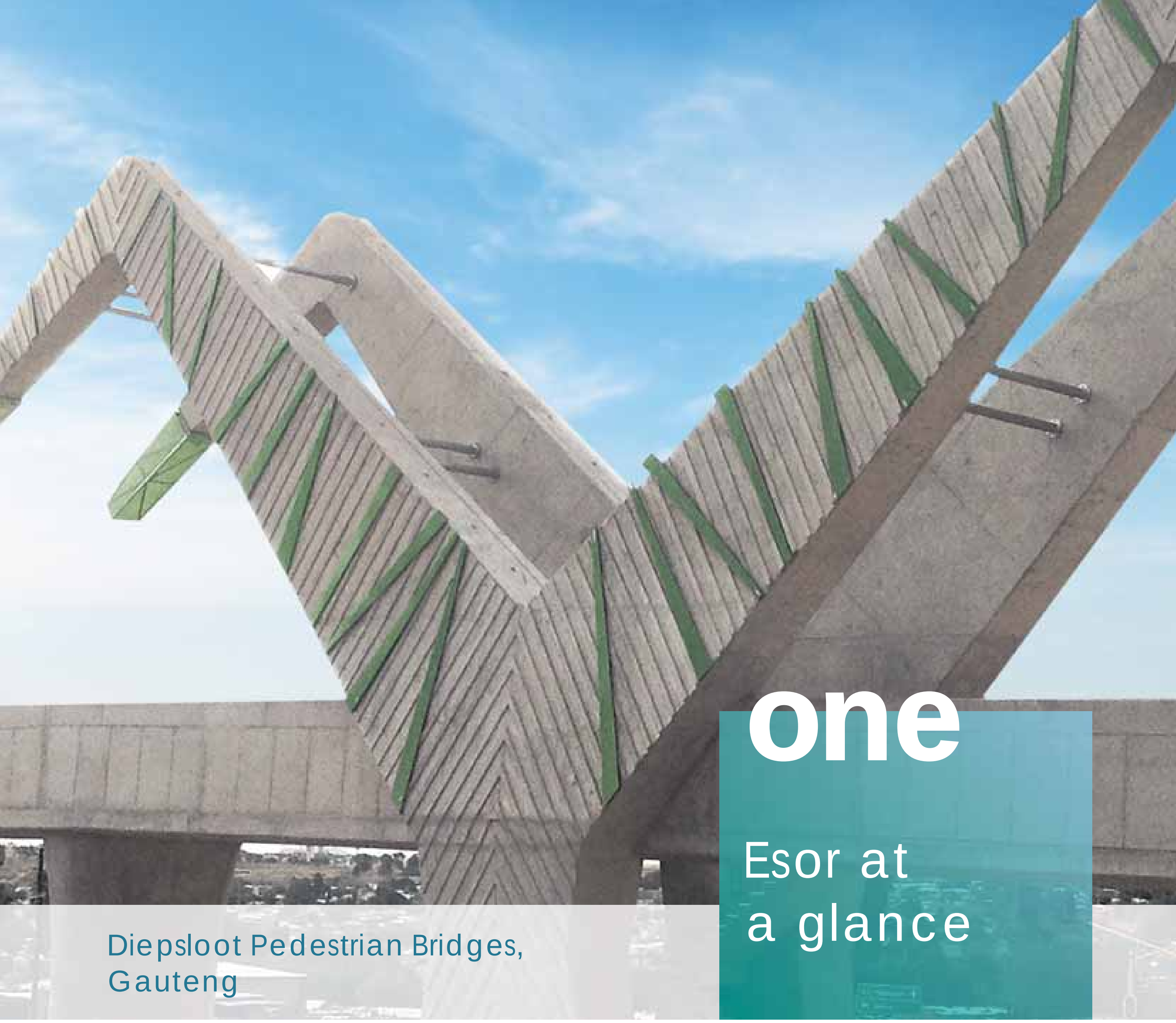
Highlights and challenges

Highlights

- HEPS from continuing operations up 23%
- Gearing reduced to 23,6%
- Stable 2-year order book: R1,94 billion
- Improved safety reporting
- LTIFR of 0,37 < industry average of 1,33
- ISO 9001, 14001 and 18001 accreditation maintained in all divisions
- Revitalised board
- Appointed two new black female independent non-executives
- Rightsized business following Geotechnical disposal
- Streamlined plant holding and structures
- Focused product offerings
- Aligned human resources to strategy
- Maintained Level 3 B-BBEE rating
- Completed legacy loss-making contracts
- Smooth transition of new management team
- Centralised Support Services strategy implemented

Challenges

- Ongoing cancellations and delays in contract awards
- Limited mega projects in the market
- Increased pricing competition
- Fixed cost optimisation
- Margin pressure due to overcapacity
- Skills retention
- Difficult contractual environment
- Claims finalisations



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Esor at a glance

Diepsloot Pedestrian Bridges, Gauteng

Esor started the R52 million construction of two landmark and iconic pedestrian bridges in July 2013. The two pedestrian bridges will serve densely populated Diepsloot, a township north of Johannesburg, Gauteng, crossing William Nicol Drive, one of Johannesburg’s main arteries. These bridges form part of the bulk infrastructure for the Diepsloot urban development and will link the current Diepsloot to the new. Known as the Tanganani bridges they will provide safe passage for about 150 000 Diepsloot residents.

The intricate design includes a centre column representing the wings of a bird taking flight and features special light boxes. This required specialised civil-engineering construction skills and capacities, as well as stringent on-site safety requirements. Working at height called for strict safety protocols, especially in windy conditions, when construction was halted on various occasions to ensure the safety of workers. A particular achievement was the lifting and installation of the 400kg lighting features. Crossing over one of Johannesburg’s busiest roads made it impossible to divert traffic, requiring construction over a live road.

Social and environmental impact

- 120 people were sourced from Diepsloot to work on the project
- Environmental management plan included protecting the threatened giant African bullfrogs

Company profile

Esor is a multi-disciplinary construction and development group focused on niche sectors of the construction market. We focus on infrastructure development projects in southern Africa.

Evolving for sustainability

Esor in FY16

Product delivery focused:

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

Esor in FY15

Sector focused:

- Esor Civils
- Esor Pipelines
- Esor Developments

Esorfranki in FY14

Multi-disciplinary and geographical focus:

- Esorfranki Geotechnical
- Esorfranki Civils
- Esorfranki Pipelines

Flagship projects

Western and Northern Aqueducts

Kusile terrace underground facilities and general services piping

Diepsloot integrated housing and infrastructure development

Footprint

How we create value

What we put in and use up... | to do what we do...

Financial

- Cash flow
- Working capital management
- Access to borrowings
- Credit rating
- Order book growth
- Operating margin
- Capex

Human

- Effective, ethical leadership
- Industry expertise
- LDC employees
- JV partner, service provider and subcontractor employees
- Company culture
- Skills – tendering, project management

Manufactured

- Fully equipped workshops
- Rationalised plant fleet
- Specialised pipeline equipment

Intellectual

- Engineering skills
- Specialised pipeline experience
- Seasoned management

Social

- Transformation programme
- Skills development
- Effective stakeholder engagement

Natural

- Energy
- Water

Core

Civil infrastructure works such as mines, townships, power station infrastructure, concrete structures, crushing and earthworks

Building and housing development and refurbishments

Construction and rehabilitation of onshore pipelines with specialist experience in continuous welded steel and large bore pipelines

Township and land development for affordable and low-income housing projects

Provision of sanitation services

Central support services

Strategic planning
See pages 14 to 15 for reference.

Financial and capital management
See pages 98 to 100 for reference.

Risk management
See pages 38 to 40 for reference.

Commercial and legal management
See page 40 for reference.

SHEQ management
See pages 31 to 34 for reference.

HR management
See pages 29 to 31 for reference.

Procurement
See page 32 for reference.

Stakeholder management
See page 27 for reference.

IT and information management
See page 40 for reference.

Taxation

to deliver...

while contributing to the economy

- Bridges
- Schools
- Hospitals
- Sanitation facilities
- Mine and power station infrastructure
- Building refurbishments
- Water pipelines
- Fuel pipelines
- Gas pipelines
- RDP housing
- Affordable housing
- Gap housing
- Water treatment works
- Pipeline maintenance
- Pipe jacking
- Culvert jacking
- Bridge jacking

By-products:

- Noise
- Dust
- Carbon emissions
- Waste water
- Recyclable solid waste
- Hazardous waste

Financial

- Shareholder value
- Taxation
- Service provider, subcontractor enablement

Human

- Job creation and sustainability
- Bursars, graduates and experienced employees
- Skills training

Built

- Pipeline infrastructure for water, gas and petrochemicals
- Housing, schools, road infrastructure
- Mine and power station infrastructure
- Pipe, bridge and culvert jacking
- Pipe rehabilitation

Intellectual

- Upskilled LDCs
- Engineering and construction experience

Social

- Collaborative relationships with clients, unions employees, government, shareholders, financial institutions
- Transformation
- Housing, schools, road infrastructure
- Enterprise development supporting SMMEs

Natural

- Carbon footprint
- Responsible water use

Five-year review

Consolidated statements of profit or loss	2015 R'000	2014* R'000	2013 R'000	2012 R'000	2011 R'000
Revenue	**1 448 363**	1 592 835	2 325 958	1 771 692	1 366 433
Cost of sales	**(1 385 681)**	(1 611 624)	(1 950 798)	(1 549 955)	(1 204 988)
Gross profit/(loss)	**62 682**	(18 789)	375 160	221 737	161 445
Other income	**10 170**	10 564	27 239	1 705	3 654
Operating expenses	**(95 963)**	(127 117)	(133 134)	(90 786)	(116 033)
(Loss)/profit before interest, depreciation and taxation	**(23 111)**	(135 342)	269 265	132 656	49 066
Depreciation, impairments and amortisations	**(78 650)**	(146 419)	(118 271)	(79 510)	(65 489)
(Loss)/profit before interest and taxation	**(101 761)**	(281 761)	150 994	53 146	(16 423)
Finance income	**19 538**	4 980	42 369	49 726	23 703
Finance costs	**(22 983)**	(42 420)	(86 684)	(73 233)	(54 371)
(Loss)/profit before taxation	**(105 206)**	(319 201)	106 679	29 639	(47 091)
Taxation	**5 314**	102 862	(18 969)	(11 423)	6 330
(Loss)/profit from continuing operations	**(99 892)**	(216 339)	87 710	18 216	(40 761)
Discontinued operations					
Profit from discontinued operations, net of income tax	**–**	50 178	–	–	–
(Loss)/profit for the year	**(99 892)**	(166 161)	87 710	18 216	(40 761)
Headline (loss)/earnings reconciliation:					
(Loss)/profit for the year	**(99 892)**	(166 161)	87 710	18 216	(40 761)
(Profit)/loss on disposal of property and equipment	**(893)**	294	(16 988)	5 830	4 609
Loss on disposal of discontinued operations	**–**	38 190	–	–	–
Gain on disposal of subsidiary	**–**	–	–	–	(3 654)
Impairment of assets	**29 739**	84 638	6 305	–	2 032
Headline (loss)/earnings	**(71 046)**	(43 039)	77 027	24 046	(37 774)
Earnings per share					
Basic (loss)/earnings per share (cents)	**(26,4)**	(43,5)	23,5	4,7	(13,9)
Diluted (loss)/earnings per share (cents)	**(26,4)**	(43,5)	23,5	4,7	(13,8)
Headline (loss)/earnings per share (cents)	**(18,8)**	(11,3)	20,5	6,2	(12,9)
Dividend per share (cents)	**–**	38,0	–	–	–

* *Continuing operations*

Consolidated statements of financial position	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
Assets					
Non-current assets	**475 950**	613 660	1 237 461	1 151 181	966 187
Property, plant and equipment	**230 932**	320 135	822 678	737 312	565 775
Intangible assets	**–**	–	86 336	88 226	90 117
Goodwill	**155 323**	185 062	305 715	305 715	305 715
Financial assets held at fair value through profit or loss	**29 488**	64 923	3	1 291	–
Deferred tax assets	**10 566**	11 457	22 729	18 637	4 580
Investment and loan to joint venture	**48 880**	–	–	–	–
Loans and long-term receivables	**761**	32 083	–	–	–
Current assets	**753 117**	935 151	1 006 320	665 288	498 164
Inventories	**149 374**	221 345	69 721	20 622	16 983
Non-current asset held-for-sale	**20 046**	–	–	3 293	–
Loans and receivables	**35 014**	–	27 726	–	420
Taxation	**8 014**	13 455	14 513	15 617	3 855
Trade and other receivables	**504 330**	659 928	826 713	529 103	413 768
Cash and cash equivalents	**36 339**	40 423	67 647	96 653	63 138
Total assets	**1 229 067**	1 548 811	2 243 781	1 816 469	1 464 351
Equity and liabilities					
Share capital and reserves	**667 340**	777 219	1 053 262	937 432	703 156
Share capital and premium	**583 730**	586 145	571 300	592 045	389 449
Equity compensation reserve	**–**	19 213	18 606	16 188	14 444
Foreign currency translation reserve	**27 033**	23 665	3 850	(21 395)	(33 188)
Retained earnings	**56 577**	148 196	459 506	350 594	332 451
Non-current liabilities	**121 586**	207 802	540 326	316 658	195 562
Secured borrowings	**101 837**	163 043	368 507	179 911	84 516
Preference shares	**–**	23 424	21 000	–	–
Post-retirement benefits	**–**	–	1 913	1 806	1 657
Deferred tax liabilities	**19 749**	21 335	148 906	134 941	109 389
Current liabilities	**440 141**	563 790	650 193	562 379	565 633
Current position of secured borrowings	**82 920**	74 350	79 481	105 923	241 527
Preference shares	**21 000**	–	–	–	–
Taxation	**2 644**	19 583	4 508	15 872	9 953
Bank overdraft	**–**	19 131	34 059	3 047	–
Provisions	**11 458**	13 713	38 329	16 350	3 213
Trade and other payables	**322 119**	437 013	493 816	421 187	310 940
Total equity and liabilities	**1 229 067**	1 548 811	2 243 781	1 816 469	1 464 351
Number of ordinary shares in issue ('000)	**395 185**	395 185	395 185	395 185	302 162
Weighted average number of ordinary shares ('000)	**378 110**	381 970	375 289	386 731	293 763
Diluted weighted average number of shares ('000)	**378 110**	381 970	375 289	386 731	293 763
Net asset value per share (cents)	**178,3**	203,5	280,3	241,5	238,9
Net tangible asset per share (cents)	**148,4**	168,6	205,2	168,5	142,1

Directorate and executive management

Please refer to Annexure 3 on page 139 of this integrated report for detailed CVs

Executive directors

1. Wessel van Zyl (born 1967)
   CEO
   CA(SA)
2. Bruce Atkinson (born 1977)
   CFO
   BCom (Unisa), BCom Honours (Accounting) (UKZN) CA(SA)

Non-executive director

3. Bernie Krone (born 1953)
   Chairman
   PR(Eng), FSAICE, BSc Eng (Civil)

Independent non-executive directors

4. Eugene Erasmus (born 1948)
   B.Sc., B.Eng and M.Eng (Stellenbosch)
5. Oswald "Ossie" Franks (born 1953)
   PhD (Engineering Science), BSc Eng (Mechanical), M. Industrial Admin, Honours Business and Admin., Government Certificate of Competency: Mines and Works.
6. Keneilwe Moloko (born 1968)
   CA(SA), BCom (UCT), PGDA (UCT), BSc.QS (UCT)
7. Heather Sonn (born 1971)
   Liberal Arts Degree, MSc (International Business)
8. Ethan Dube (born 1959)
   MSc (Statistics) Executive MBA (Sweden)

Executive management

9. Dave Gibbons (born 1966)
   ***Managing Director** – Construction*
   Dip. Mining Survey
10. Warren van der Vyver (born 1976)
    Commercial Director
    N.Dip Civil Eng (Pretoria Tech)

two

Performance reviews

Western Aqueduct, KwaZulu-Natal

Esor is progressing well on the 36-month Western Aqueduct Phase 2 contract for eThekwini Municipality.

This particularly challenging project required pipelines to be laid through built up areas and across road and rail infrastructure as well as the steep Umgeni Valley and the Umgeni River itself. This required a particular emphasis on health and safety for workers.

The project comprises the construction of 17 km of DN 1 400 mm and 8 km of DN 1 000 mm continuously welded pipeline, road rehabilitation and realignment, pipe jacking as well as crossing the Umgeni River. This called for a number of disciplines to be applied including the concrete structures being constructed for the chambers.

The route for the pipeline passes through the existing road infrastructure, requiring 5,5 km of road realignment and about 8 km of road reinstatement. Once the pipeline has been laid the roads have to be rehabilitated and reconstructed back to an acceptable standard without damaging the structures holding the pipeline. Other infrastructure belonging to Telkom, Neotel, Link Africa, Dark Fibre and eThekwini Electricity all had to be coordinated and relocated within a single trench. To achieve this Esor operates six simultaneous work fronts, consisting of three pipeline areas, one for concrete work and two for road works. Esor's pipejacking division was also involved completing three pipe jacks.

Social impact

> General labour all sourced from the local communities

> 330 people in total working on the project

> 19 employees on NQF Level 2 learnership programmes

> 9 civil engineering students from the area employed for the full duration of the project

> Budget set aside for Local Emerging Contractors

Chair and CEO's report

We believe that understanding our strengths and how best to apply them, can appropriately start the journey forward.

Bernie Krone ***Non-Executive Chairman*** Wessel van Zyl ***CEO***

Setting the scene

Carving a new path

FY2015 marked the beginning of a new chapter in Esor's story line. We returned to where we started, under the Esor banner, but a leaner group matured and toughened by a rough few years.

After our debut on the JSE in 2006, we enjoyed an explosive growth trajectory, particularly between 2008 and 2011. These strong years met an abrupt end in 2012 as our sector buckled under the impacts of a hard-hit global economy. In addition the group was by then impacted by loss-making contracts, the legacy of which extended over the following years and still impacted our performance during the year. In November 2013, we took decisive action to position the group for recovery and sold our founding Geotechnical business to a group likely to dominate that space in Africa.

And so we arrived at FY2015, with a quite differently structured group to that of the past decade and still addressing the causes and effects of problem contracts, making the year one of studied reflection and repositioning for sustainable value creation.

Fundamentally our approach is "back to basics". We are looking to revive and harness the original spark that in the past drove our growth momentum. We have mostly well-established businesses. Our order book remains stable and mid-term profitability is within reach. However, in FY2015 we were still battling the legacy of bleeding contracts weighing heavy on our balance sheet, which is evident in our overall performance. We have certainly gained headway with the major problem contracts now completed, handed over and resolved.

Under new leadership

In keeping with our milestone year of change, FY2015 also marked the end of an era of leadership. Esor listed originally with a strong board of highly experienced non-executives. Nine years later a number were looking to retire and agreed to remain in office until the sale of the Geotechnical business was finalised. This now concluded, we have welcomed new directors onto our board, who bring to the table fresh dynamism underpinned by a combination of strong engineering and finance skills.

Our strategy

We believe that understanding our strengths and how best to apply them, can appropriately start the journey forward. Given the global economy and the struggling domestic construction market, we need a leaner, more agile operation to maximise our competitive advantage and mitigate our risk. Below we set out our strategic objectives moving forward, which we considered, refined and concluded in the year under review.

Our key strategic objectives:

> Align the group strategy and structure to market opportunity

We have restructured the group effective 1 March 2015, into one construction unit with six product areas which we believe offer promising prospects, while capitalising on our strong brand. To best target these markets we have consolidated our business, particularly in rationalising the Civils operations.

> Create an efficient, agile operation

We have been consolidating and streamlining our support services over the last two years, and are now in the process of finalising systems integration and reporting.

> Build a strong financial foundation

We have established and are demanding participation in our culture of financial discipline. Our focus is to reduce debt and improve cash flows.

> Back to basics

After a period of retrospection, followed by an in-depth external market analysis, we are focusing on what we do well, where markets exist and where we can be profitable, all this backed by experienced teams.

Our most material issues

Material issue	Key risks	Actions
Project execution *Challenges* • Start projects efficiently • Manage limited senior resources • Complete and proper hand-over from pre-quote estimate stage to project owners • Identify and manage changes in scope • Commercial astuteness • Client relationship	**Underperforming contracts** • Ineffective business processes and reporting • Inability to identify, track and report on project issues or risks, lack of accountability • Inexperienced project managers	• Improve commercial astuteness through selective recruitment and training • Efficient risk-controlled delivery of quality projects on time and on budget • Visible Felt Leadership ("VFL") • Daily/weekly site costings • Monthly cost meetings • Claims conscious NOT claims-oriented • Dedicated executive teams on key projects • Clearly defined project roles and responsibilities • Clear and objective standards for management • Entrench accountability • Appointing the right people for the right job • Compliance reviews against policy • Entrenched standardised project reporting
Insufficient diversity *Challenges* • Concentration of projects with one client • South Africa focused with minimal African exposure	**Competition** • Majority of projects with Eskom and government • Growth dependent on South African economy	• Focus on area where demand is expected to increase • Avoid markets with high levels of competition • Appoint executive team to key projects to ensure that problems are identified early • Build reputation through strong brand • Ensure competitive offering • Targeting projects in selected African countries

Chair and CEO's report *(continued)*

Material issue	Key risks	Actions
Financial liquidity (Financial management during times of consolidation followed by growth) *Challenges* • Balancing the group's growth with financial requirements for servicing investments in housing and development	**Working capital management** • Inability to generate the cash necessary to support growth • Slow government payment **Credit risk** • Unrealistic costing • Lack of site accountability	• Sufficient capital to meet business objectives (additional banking facilities) • Providing company and institutional guarantees to free up cash retentions • Tougher debt collection • Consolidation of plant • Improved financial systems • Monthly reviews by EXCO of contracts and ongoing costs
Skills shortage *Challenges* • Industry-wide skills shortage at most levels undermines delivery and expansion	**Below par profitability** • Inexperienced staff	• Creating an attractive employment proposition, a people-centred culture, skills development programme and succession planning • In-house training programmes • Promotion from within • Appointing HR managers, with industrial relations function in regional offices and on large sites
Reputation *Challenges* • Below par performance damaged our group reputation and overshadowed our key areas of strength • Securing work	**Project delivery** • Underperforming contracts **Supplier relationship** • Non-predictable payment cycles **Bribery and corruption** • Potential contract cancellations	• Realigned strategy • Return to profitability • Clear future focus based on market prospects • Customer relations • Investor relations to align market expectations with realistic delivery • Compliance and a whistle blowing process • Corporate governance best practice • Enforce Code of Conduct • Fraud awareness campaigns • Zero tolerance approach
SHEQ *Challenges* • SHEQ issues may pose a threat to the health and welfare of our employees, customers, the environment and ultimately group reputation	**Injury to employees** • Hazardous environment • Unsafe workplace • Fatalities	• ISO 9001, 140001 and 18001 accreditations • Superior safety record • Regular internal and external audits • Health and safety training • Strategies for reducing, reusing and recycling resources • Environmental training
Growth • Intensifying competition and margin squeeze • Construction Charter requirements essential for securing government and parastatal contracts	**Dependency on government contracts** • Intense competition limits market opportunities	• Agility to go where the work is • Targeting higher margin private sector projects eg integrated low-cost housing • Taking equity share in developments • Maintained Level 3 B-BBEE • Product and market diversification
Industrial action • Increased union and employee expectations • Negotiations on wages and benefits	• Intimidation of non-striking employees • Impact on productivity	• Open and regular union and employee communication • Unity in central negotiations

Plant

Recent investment in streamlining our plant sees a relatively new and well-maintained fleet as well as well-equipped and run workshops. Our plant capacity has been rationalised appropriately to align with our forward-looking strategy and reduce unnecessary overheads.

Human resources

During the year our workforce was reduced by 19,9% as part of our process of aligning our headcount to strategy. The loss of jobs is certainly regrettable, but necessary to position the group for sustainability. In addition we introduced a number of initiatives to improve efficiency and productivity, such as the onsite biometric system to improve time management and reduce absenteeism.

SHEQ

It is regrettable to report that we experienced a fatality at our Northern Aqueduct project on 2 April 2015. Any loss of life impacts on the family and group and we extend our condolences to the family.

We continue, however, to improve on LTIFR, currently at 0,37, and focus on leading indicators to ensure we prevent accidents. Maintaining the 9001, 14001 and 18001 accreditations remains our priority.

The next phase of the journey

We anticipate the recovery to continue into the year ahead for the group. We are confident that we have resolved major barriers to growth. The streamlined group is agile and nimble to “go to where the work is”, maximising our ability to create value, and structured for profitability with clear focus areas and improved synergies between disciplines.

In addition we have earmarked sanitation as an area of future opportunity. Newly appointed Minister of Water and Sanitation, Nomvula Mokonyane, is driving improved access to water and better water infrastructure, particularly in rural areas.

With our thanks

Firstly we thank our retiring directors, Chairman Dave Thompson and independent non-executive Franklin Sonn, who have been integral in Esor’s success and later in steering us through difficult times. And to our remaining and new directors, thank you for your tenacity and vision.

We commend management and employees for their ongoing commitment despite the turbulence. Thank you for your hard work and patience in facing ongoing change.

We also thank our business partners, suppliers, advisors and our valued clients and shareholders for their continued confidence in the group.

Bernie Krone
Chairman

Wessel van Zyl
CEO

21 May 2015

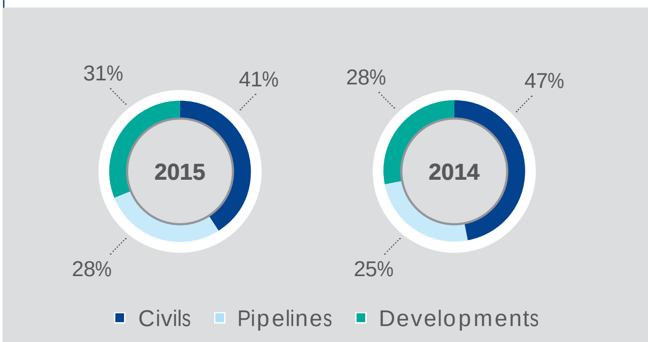
Operational review

Review of FY2015

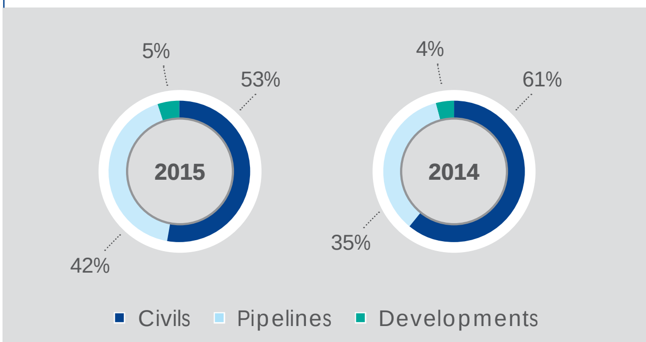
Our achievements

- Two contracts successfully completed at Kusile
- Loss-making N4 road contract resolved
- R100 million office-to-residential conversion contract secured
- Sound pipelines order book
- Pipejacking awarded substantial work
- Established joint venture with Calgro M3 for Diepsloot development
- Negotiating additional development project in Khayelitsha
- Sanitation project for eThekwini successfully delivered
- Consolidated Civils operations

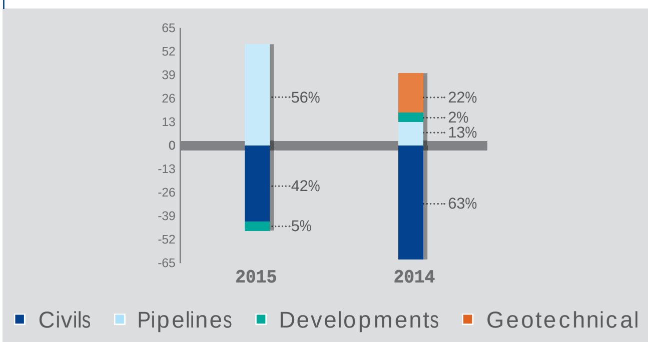
Order book



Contribution to revenue



Contribution to group PAT



For an improved performance

Revenue was impacted by group consolidation initiatives as well as the last vestiges of loss-making contracts, and reduced by 9,1% to R1,45 billion. Earnings from continuing operations improved 53,8% to a loss of R99,9 million, which translated to a headline loss per share of 18,8 cents compared to headline loss per share of 24,4 cents from continuing operations at February 2014. Gearing was lowered to 23,6%, which was better than our target. The board did not declare a dividend.

Civils (mainly focused on infrastructure and building/housing going forward)

The *Civils* division continues to struggle as it is operating in a sector particularly hard hit by macroeconomic conditions. Margins are tight, with contracts which were tendered for in a tough environment being executed in an even bleaker environment.

The Medupi and Kusile power stations have effectively carried the local construction industry in an otherwise difficult environment. In keeping with this, Esor too is dependent on our work at Kusile. This accounts for 60% of Civils revenue and approximately one-third of group revenue. While this poses a concentration risk, we are working hard on entrenching our already strong relationship with Eskom and on the upside, Eskom has proved reliable in paying. The Kusile terrace underground facilities works contract and the general services piping are currently under way. The crushing contract and the bulk earthworks contracts are completed and claims finalised. Historical claims on the terrace underground facilities related to the delays and disruptions were finalised in October 2014 and settlement received in November 2014. We continue to prioritise our relationships with Eskom. To ensure all expectations are met we regularly interact with the Kusile executive team and schedule regular site meetings.

In the second half of the year Civils successfully completed its challenging N4 loss-making contract. The Bakwena N4 contract incurred a further R56 million loss resulting from late completion, partly due to late changes to the scope of works and the impact of the labour unrest at Marikana mine.

Following on our most recent, and now complete road contracts, we have carefully assessed this arena and have decided in the short to medium term to avoid tenders for major roads and earthwork contracts. While we retain the capability to secure the work, we believe this is outweighed by the intensifying competition which is depressing our margins and that our resources are best diverted to more favourable areas in the construction sector.

We have successfully targeted refurbishment projects securing a contract for the conversion of an inner city office block into accommodation. In addition we are busy with the upgrade of OR Tambo Duty Free for ACSA and the upgrade of Walter Sisulu square, for the Johannesburg Development Agency. We have increased our footprint in the KwaZulu-Natal RDP housing market with two housing projects totalling 1 500 units. We continue to pursue work in the sizable low-cost housing market.

On the pipejacking front, we were awarded substantial work in the year and remain the recognised leader in South Africa.

Operational review *(continued)*

Order book overview

Description	Duration	Value	2015 progress and prospects
Kusile Power Station, **Mpumalanga** (Packages 25 and 26)			
Underground service ducts to completed terraces and general services pipelines	60 months	>R1,8 billion	Progress on track to meet Eskom deadline for first fire. General service pipelines to be completed by December 2015.
New contracts			
Mthimude Housing, **KwaZulu-Natal**			
Low-cost housing, 500 units 40 m² each in rural KwaZulu-Natal	12 months and completed	R33 million	Project completed. Learning curve for company and project team.
Umzumbe, **KwaZulu-Natal**			
Low-cost housing, 1 000 units 40 m² each in rural KwaZulu-Natal	18 months and due for completion in March 2016	R65 million	Slow start to project with some stand allocations still outstanding. Implementing lessons learnt from Mthimude project.
ACSA, **Gauteng**			
Upgrading of duty free mall	12 months and due for completion in March 2016	R43 million	Planning and site establishment completed
Walter Sisulu Square, **Gauteng**			
Upgrade of entrance, walkways and parking area	Three months and due for completion in June 2015	R19 million	Planning and site establishment completed
Transnet, **Gauteng**			
Office refurbishment	15 months and due for completion in June 2016	R99 million	Planning and site establishment completed. First section demolished and on schedule.

Pipelines

Pipelines has a solid, substantially full order book notwithstanding suffering some project cancellations and delays in the year, and continued to deliver a good performance despite an increasingly competitive market.

We successfully completed a number of key pipeline projects during the year including:

- Ethekwini Water and Sanitation Project, KwaZulu-Natal
- Bulk water main, Umlaas Road, KwaZulu-Natal
- Bulk water supply, Kwahlokohloko, KwaZulu-Natal
- Canal-Siphon 4, Mhlume, Swaziland
- Mooihoek Phase 4 Bulk Water Pipeline, Limpopo
- Woodmead pipeline, KwaZulu-Natal
- Bluff storm water project, KwaZulu-Natal

Our pipelines order book comprises various long-term projects such as the Western and Northern Aqueducts. New awards such as the Malkerns Project in Swaziland, the Lion Park and Tshelimnyama pipelines have sustained the strength of our order book. The pipelines market remains difficult, as an increasing number of new entrants to the market escalate competition. In addition, tender fraud and corruption are rife in the sector, which has resulted in time and effort expended in challenging various awards, and in some instances seen tenders cancelled. We continue to drive cross-border expansion and have achieved success in Swaziland, with the award of a number of projects in the past two years. However, procuring work in other SADC countries is proving tough impacting our time and costs.

Order book overview

Description	Duration	Value	2015 progress and prospects
Western Aqueduct, Phase 2, KwaZulu-Natal			
Installation of 25 km of 1 400 mm pipe from Hillcrest to Ntuntuma	36 months and due for completion in October 2016	R366 million	Project is subject to a number of delays and claims. General progress is satisfactory.
Northern Aqueduct Phase 1, KwaZulu-Natal			
Installation of 14 km of 800 – 1 400 mm pipe, from Phoenix to Umhlanga Rocks and Ottawa	18 months and due for completion in July 2015	R135 million	Project is on track despite delays incurred during the course of the project.
Northern Aqueduct Phase 3, KwaZulu-Natal			
Installation of 6,2 km of 1 200 mm pipe at Phoenix Reservoir	12 months and due for completion in December 2015	R73 million	Progressing well with most of the difficult sections now completed.
Kwahlokohloko reservoir and pump station project, KwaZulu-Natal			
4,6 km of 900 mm pipe, reservoir and access road	24 months and due for completion in June 2015	R25 million	Numerous delays and disruptions due to no availability of water to test the resevoir.
New contracts			
Midvaal pipeline, Gauteng			
Replacement of existing pipe with 700 mm pipe	9 months and due for completion August 2015	R38 million	On track and on budget
Masons pipeline, KwaZulu-Natal			
Replacement and relocation of bulk water feeder mains	6 months and due for completion in August 2015	R13 million	Currently establishing onsite
Malkerns project, Swaziland			
Rehabilitation and upgrading of canal	15 months and due for completion in August 2016	R55 million	Currently establishing onsite
Lion Park pipeline, Gauteng			
7,1 km of 350 mm pipeline from Umlaas Rd resevoir to Manyavu off-take chamber	10 months and due for completion in February 2016	R27 million	Currently establishing onsite
Tshelimnyama pipeline, KwaZulu-Natal			
8 km of 500 – 600 mm steel pipeline from Kloof to Tshelimnyama resevoir	16 months and due for completion in August 2016	R100 million	Currently establishing onsite

Operational review *(continued)*

Developments

Our *Developments* business is progressing well, with five developments in various phases of planning and execution. In the year we concluded a joint venture agreement with Calgro M3, on the Diepsloot East integrated residential development project with our share being up to R2 billion. Partnering with Calgro M3 on this project lays the foundations for the successful implementation of this large and complex contract, while maintaining the original infrastructure and top structure work secured by Esor. Calgro M3 will be responsible for project development and management, an area we need to outsource, while we retain the "right of first refusal" for the installation of all engineering services and construction of 50% of the top structures. The combination of Calgro M3's development skills and our construction expertise bodes well for the successful delivery of the project.

We secured a further development project in Khayelitsha township in the Western Cape, increasing projects in our order book to five developments compared to four in the previous year. As a result the order book value remained steady despite a drop in revenue in terms of the joint venture agreement with Calgro M3.

Although the order book is consistent, the expected FY2015 revenue has declined significantly due to delays in spending the allocated budget on the Diepsloot project. In addition to the challenges of late payments by the Department of Human Settlements, the sector is impeded by tedious approval processes required for developments to commence and delays in allocating the housing budget.

Order book overview

Description	Duration	Value	2015 progress and prospects
Diepsloot East, **Gauteng**			
Esor and Calgro M3 own the development rights as the "turnkey developer/ contractor" for a 9 500 unit integrated housing development on 237 ha.	6 – 8 years – in progress	Total project value is estimated at R4 billion	The pedestrian bridges are completed and were handed over in April 2015. Work on the perimeter wall around the entire development is expected to start in June. However, for the first few months the focus will be on addressing sensitive environmental issues with infrastructure construction scheduled to start in the last quarter of FY2016. In the interim we expected to benefit from related projects such as upgrading water, sewerage and electrical services which are to feed the development.
The Orchards, Rosslyn, **Gauteng**			
The Orchards is a 100% Esor owned integrated residential development in Tshwane.	5 years – in progress	Total project value excluding top structure opportunities is estimated at R240 million	Orchards continued to sell relatively well, with 225 stands sold in FY2015. Although the sales volumes are slightly lower than expected, margins remain good. In the year ahead, we expect to sell another 300 stands. Infrastructure on the next phase is progressing well with proclamation of further 211 stands expected by October 2015.

Description	Duration	Value	2015 progress and prospects
Uitvlugt (Three Rivers), Vereeniging, Gauteng			
Uitvlugt is an integrated residential development in Three Rivers East near Vereeniging and 100% owned by Esor. Comprising more than 4 200 units on the 370 hectares, of which Ext 1 (2 242 units) is proclaimed and ready to be developed. In addition, the development will yield: • 11 business sites • private open space of 68 ha • educational sites • garage of 1 ha • 7 special stands on 5,7 ha	6 – 8 years	Total project value excluding top structure opportunities is estimated at R600 million	Delays occurred due to Gautrans expropriating a portion of the development for a new road that cuts through the development. The new road's alignment has now been finalised and necessary replanning of the development is underway. Once the town planning is complete and approved by Midvaal Municipality, construction of incomplete infrastructure left by the previous developer will commence. This is expected to happen in the last quarter of FY2016. As a result of these delays, bond repayment on this property is expected to be deferred.
Soshanguve, Gauteng			
Soshanguve Ext 8 is a residential development in Tshwane. Esor has acquired the rights to develop through a partnership with the rights holder of the land availability agreement with the City of Tshwane Metropolitan Municipality. This will comprise 839 Res 1 stands (1 dwelling per erf)	3 – 4 years	Total project value excluding top structure opportunities is estimated at R155 million	We continue to be delayed in waiting for approvals from the Tshwane Municipality. We have a commitment from the Gauteng provincial government to expedite developments in this area. However, we do not anticipate any progress in FY2016.
Khayelitsha Township, Western Cape			
Esor entered into a heads of agreement with Khayelitsha Community Trust securing the development rights as the "turnkey developer/ contractor" for a 400 unit integrated housing and a commercial stand development on 4 ha.	2 – 3 years	Total project value excluding top structure opportunities is estimated at R60 – 70 million	Development plans are being finalised and finance being secured.

CFO's report

Introduction

Highlights for the year include the completion of the legacy loss-making N4 contract, the finalisation of the global claim with Eskom on the Kusile project, the restructuring of the group to focus on six distinct product lines, further rationalising of the plant fleet and the streamlining of the support services. We posted growth in both revenue and profitability in the Pipelines business and completed the construction of two iconic pedestrian bridges at Diepsloot.

The year's lows were the impact of losses on three contracts resulting in an operating loss of R48,3 million in the Civils business and the further impairment of the goodwill relating to that business. The last of these three contracts, the N4 road project, was completed in November 2014. Following the completion of this project, a thorough independent review and introspection was conducted to ensure the lessons learnt are applied.

At the end of the financial year the business is in a stronger financial position. Gearing has improved to 23,6% and the group operations have been restructured strategically and operationally to focus on six product lines, namely Infrastructure, Building/Housing, Pipelines, Pipe Services, Sanitation and Developments.

Our strategic partnership with Calgro M3 on the Diepsloot East development is moving forward with the regulatory and environmental approvals for the main infrastructure development currently being actioned.

Financial review

The group's business reported an operating loss for the year of R101,7 million which was impacted by the impairment of goodwill of R29,7 million, the fair value write down of the contingent consideration from the disposal of the Geotechnical business of R35,4 million and the operating loss of R48,3 million reported in the Civils division.

Substantial losses have been incurred on the following contracts:

- N4 Marikana – mining labour unrest in the area led to low production levels and a loss of R56 million has been recorded for the year ended February 2015. The project was completed in November 2014 following further delays and design changes. Claims have been submitted, but these will not materially affect the outcome of the project.
- Final settlement on the consolidated claim at Kusile resulting in a R20 million reversal.

Operational review

Generally, the roads and civils sectors have been affected by difficult working conditions, including labour unrest, excessive rainfall and planned production targets not being achieved.

The group has further focused on:

- commercial aspects of contracting with the appointment of a commercial director and two regional commercial managers;
- improving quality of reporting of contracts through integration with the accounting package;
- standardising group policies and procedures across divisions;
- bedding down the integrated financial reporting system across the group; and
- restructuring the business operations.

These processes will be continuously managed to harness further efficiency and effectiveness.

Consolidated statement of profit or loss and other comprehensive income

The group's consolidated revenue from continuing operations has decreased by R144,5 million to R1,45 billion following the decision to focus tendering efforts on profitable work and efficiently completing the work on hand. This effect has mainly been felt in the Civils division with both the Pipelines and Developments divisions showing improvements in activity levels. The group recorded a headline loss per share from continuing operations of 18,8 cents (2014: headline loss 24,4 cents per share) which represents a 23,0% decline. This loss is inclusive of the R35,4 million fair value adjustment loss on the Contingent Consideration from the disposal of the Geotechnical business.

Gross profit margins improved to 4,3% (2014: -1,2%) while net overheads reduced to R85,8 million (5,9% of revenue) from R116,6 million (7,3% of revenue) on last year's comparative from continuing operations, which included the loss on disposal of the Geotechnical business of R32,0 million. The further improved efficiencies from the rationalisation were again off-set by retrenchment costs.

The net improvement in finance cost to R7,2 million (2014: R37,4 million) was a result of the repayment of the High Yield Bond in the previous year as well as the settlement of instalment sale agreements on assets disposed during the year. Improved cash management has also reduced reliance on the overdraft facility and the resulting finance costs.

The tax credit of R5,3 million (2014: R102,9 million) resulted in an effective tax rate of 5,1% (2014: 34,8%) substantially lower than the South African statutory rate of 28,0%. The lower rate is largely attributable to impairment of goodwill, the fair value adjustment to the contingent consideration for the disposal of the Geotechnical business as well as other non-deductible expenditure and non-taxable differences.

The loss after tax amounted to R99,9 million (2014: R166,1 million including the discontinued business).

Consolidated statement of financial position

Goodwill

The directors have tested the impairment of goodwill as at 28 February 2015 based on our projections and estimates as further disclosed in note 6 to the financial statements. It was deemed appropriate to further impair the goodwill on the Patula acquisition by R29,7 million (2014: R84,6 million) to R63,9 million (2014: R93,7 million).

The valuation was done with the assistance of external corporate advisers based on a conservative discounted cash flow method. The first year's cash flow was based on a secured order book.

Property, plant and equipment

Capital expenditure of R20,5 million (2014: R38 million for continuing operations) was incurred in the current financial year. This expenditure mainly expanded the operational capacity in the Pipelines division following the awards of a number of new projects. With the improved workloads in the KwaZulu-Natal region we acquired new office premises in the region to accommodate the administrative staff. We look to take occupation by August 2015 once alterations are completed. During the year the group disposed of R40,7 million (2014: R83,1 million) of plant largely in the Civils division. This consisted of plant which had reached the end of its useful life or where we believed it would not have adequate utilisation going forward. A further R20,0 million was disposed of shortly after year-end and has been classified as held-for-sale.

There were no impairments of property, plant and equipment during the year.

The board has approved R26 million for the 2016 financial year (2015: R26 million) and relates to items mainly used in the Pipelines operations.

Financial assets at fair value through profit or loss

The contingent consideration relating to the disposal of the Geotechnical division has been revalued and impaired by R35,4 million owing to an underperformance by the discontinued operation against the benchmarks used for calculating the value on initial recognition. This is further discussed in note 7 of the financial statements.

Trade and other receivables

Trade receivables has shown significant improvement down by R108,4 million to R499 million due to good cash collections as well as the settlement of the claim with Eskom. The receivables impairment provision was also reduced to R8,5 million (2014: R20,8 million). This provision relates to receivables in the Civils division. Provision has been raised on all contractual disputes, where appropriate.

The days outstanding in the trade receivables increased marginally to 50,4 days (2014: 45,4 days). This ratio is within group risk tolerance levels. The South African credit risk exposure is around municipal, provincial and quasi government entities as detailed further in note 36 to the financial statements.

Cash and cash equivalents

The group's net cash inflow from operating activities was assisted largely by the settlement of the global claim and a reduction of the advance payment to R40 million from Eskom. A small operating surplus before working capital changes of R1,2 million (2014: R227,4 million surplus) was realised which was off-set by a net R110,4 million decrease in working capital, resulting in the total cash inflow from operating activities of R97,9 million (2014: R279,1 million outflow). No dividend was declared or paid.

CFO's report (continued)

The inflow from operating activities as well as the proceeds on disposal of property, plant and equipment of R41,9 million was used in settling vehicle and asset finance liabilities of R52,6 million and additions to property, plant and equipment of R20,5 million.

The investment in the Safdev Tanganani joint venture, which was previously consolidated, is now equity accounted.

The secured short-term overdraft facility was renewed at R30 million.

Share capital and premium

The share capital and premium at group level decreased by R2,4 million following the acquisition of 7,7 million shares by the Esor Broad Based Share Ownership Scheme.

Non-current liabilities

Secured long-term borrowings decreased after repaying R52,6 million in vehicle asset finance. Secured borrowings include a R52,8 million interest free bond registered over the Uitvlugt property.

Current liabilities

The Preference Shares are redeemable in July 2015 and are thus included under current liabilities.

Trade and other payables

Trade and other payables include R65,2 million (2014: R18,8 million) due to customers. The cost of sales' days outstanding in trade and other payables increased by 3,9 days to 67,7 days (2014: 64,0 days) mainly due to the timing of payments made to suppliers around year end.

Financial covenants

The current group overdraft facility of R30 million is secured by trade receivables. Other guarantee facilities are either covered by trade receivables or through the group balance sheet.

Dividend

The board has resolved that no dividend be declared in light of the solvency and liquidity requirements of the group and considers it prudent to conserve cash.

The year ahead

The group has adequate asset-based financing and guarantee facilities through financial and insurance institutions to provide both working capital and bonding facilities to support the operations for the 2016 financial year.

Going concern

The board is satisfied that the company will continue to trade as a going concern in the following 12 months based on current cash resources and facilities available.

Bruce Atkinson
CFO

Johannesburg
21 May 2015

Stakeholders and how we shared wealth

Key stakeholders in our group are shown below:

Operational

Government, regulators	Employment equity, environmental impact, taxation, compliance, adherence to the JSE Listings Requirements and company legislation
Local communities	Job creation, impact on the communities and environment, rehabilitation of site on completion, knowledge transfer

External

Investors	Sustainability, profitability, ROI (share price and dividends), cash generation, corporate governance and compliance, risk management, growth prospects, accessibility of leadership, succession
Funders	Solvency and liquidity, capital management, sustainability, credit rating, risk management
Contractors and suppliers	Timely payment, fair business practices, inter dependencies, enterprise development
Customers	Project execution and delivery, quality, service, value for money, security of supply

Internal

Employees	Job security, sustainability, personal growth and development, skills development, remuneration and incentives, working conditions, safety

New issues in 2015

Employees	Restructuring, consolidation resulting in retrenchments
Investors and funders	Loss-making contracts, reputation

Value added statement

	Group			
	2015 R'000	**%**	2014 R'000	%
Revenue	**1 448 363**		2 316 887	
Cost of materials and services	**(949 775)**		(1 470 773)	
Total value added	**498 588**		846 114	
Value distribution				
To employees				
Remuneration and benefits	**512 545**	**102,7**	739 552	87,9
To providers of finance				
Finance costs	**12 599**	**2,5**	39 856	4,7
Forex gain on foreign bank accounts	**–**	**–**	4 622	0,5
To providers of capital				
Dividends to Esor shareholders	**–**	**–**	145 149	17,3
To governments				
Current taxation	**(1 797)**	**(0,3)**	(1 453)	(0,4)
Foreign taxation	**1 050**	**0,2**	25 561	5,5
To reinvest in business				
Retained income	**(99 892)**	**(20,0)**	(166 161)	(20,7)
Depreciation and amortisation	**78 650**	**15,8**	171 743	19,2
Deferred taxation	**(4 567)**	**(0,9)**	(112 755)	(14,0)

	2015 R'000	2014 R'000
Average number of employees	**2 895**	4 906
Revenue per employee (R'000)	**500**	472
Value created per employee (R'000)	**172**	173

Our impacts

Our people

We recognise that our strategy will become a reality only through the continued commitment and efforts of our people. We have worked hard in getting back to our roots and revitalising the culture and spark that made us Esor to begin with.

The Group HR Manager, Jan Harm Steenkamp, is responsible for employee relations. During the year he led us in streamlining the HR department for greater efficiency, dividing responsibilities into Inland and Coastal. HR officers were appointed in each region with an industrial relations support function.

We also began the rollout of an integrated biometric time attendance system on all sites for improved time management and reduced absenteeism. Our performance management system was upgraded which included implementing a formal employee grading system and standardising job descriptions across the group.

We further created a new position – Employee Remuneration and Benefits Supervisor – to oversee employee grading and salary industry benchmarking. We anticipate that this will help with employee retention and succession planning.

Labour relations

The group supports every employee’s right to belong to a union and demonstrates this through an open and transparent relationship with all unions and their representatives. There are presently two unions active in the Esor group – NUM and BCAWU. All wage employees, which make up approximately 80% of total employees, are covered by national collective agreements between SAFCEC and these two unions.

Esor’s management recognises NUM and BCAWU due to their membership of the Bargaining Council for the Civil Engineering Industry.

During the year and given the importance to the group of our work at Eskom, we appointed a new IR Manager at Kusile to improve our relationship with Eskom in the area of onsite labour.

Employment equity

At Esor we have zero tolerance for discrimination. Should any such discrimination occur, it is immediately and appropriately dealt with in terms of the Code of Ethics and Conduct and our disciplinary procedures. (The grievance and discipline procedures are handed to employees in a booklet in their induction pack as well as being available from the company communicator.)

There were no reported incidents of discrimination during the year.

Our impacts *(continued)*

Our breakdown of employees as submitted to the Department of Labour for our Employment Equity report is set out below:

Occupational levels	Male				Female				
	A	C	I	W	A	C	I	W	**Total**
Top management	–	1	–	5	–	–	–	–	**6**
Senior management	1	–	1	8	–	–	–	–	**10**
Professionally qualified and experienced specialists and mid-management	12	1	4	40	–	–	1	2	**60**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	169	2	9	79	6	–	–	7	**272**
Semi-skilled and discretionary decision-making	571	2	8	21	21	1	9	26	**659**
Unskilled and defined decision-making	61	–	–	–	8	–	–	–	**69**
Total permanent	841	6	22	153	35	1	10	35	**1 076**
Temporary employees	1 416	10	19	45	272	4	4	13	**1 783**
Grand total	2 230	16	41	198	307	5	14	48	**2 859**

In awarding bursaries we actively seek to award bursaries to black candidates, specifically focusing on black women.

Skills development

We are committed to internal advancement of staff, particularly those from previously disadvantaged groups. This is reflected in our ongoing skills development programmes and the further study learnership scheme.

Training objectives and targets are determined at divisional level based on the respective operational requirements. We emphasise technical and operator training. The Group HR Manager is responsible for translating the divisional input into a formal annual skills development programme, which the divisional directors are responsible for implementing, together with the Group SHEQ Manager where appropriate.

The total training spend for the year for 504 permanent employees was R1,4 million, encompassing:

Training course	**Number of attendees**
Health and safety training	**978**
Operator recertification	**373**
Further education	**323**

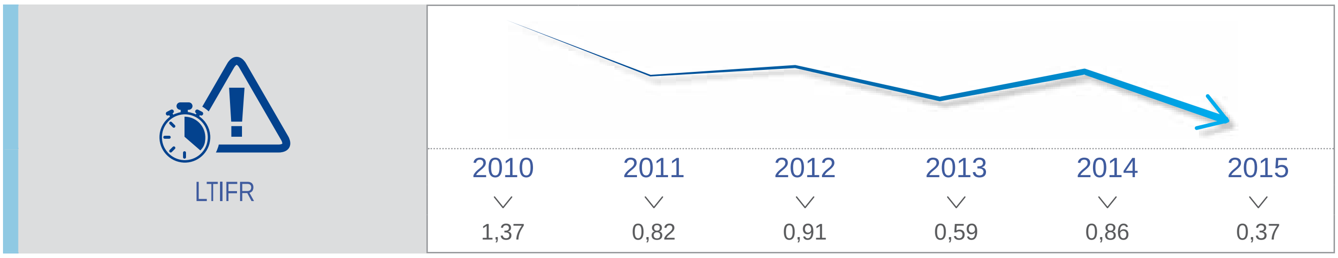
763 LDCs were also trained at a cost of R2,4 million.

Skills development breakdown:

Occupational levels	Male				Female				
	A	C	I	W	A	C	I	W	**Total**
Top management	–	1	–	–	–	–	–	–	**1**
Senior management	–	–	1	2	–	–	–	–	**3**
Professionally qualified and experienced specialists and mid-management	2	–	–	3	–	–	–	–	**5**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	93	2	2	54	5	–	–	4	**160**
Semi-skilled and discretionary decision-making	252	–	3	16	21	–	2	21	**315**
Unskilled and defined decision-making	61	–	–	8	–	–	–	–	**69**
Total permanent	408	3	6	83	26	–	2	25	**553**
Temporary employees	108	–	–	–	66	–	1	2	**177**
Grand total	516	3	6	83	92	–	3	27	**730**

Health and safety

Construction is inherently a high risk activity and we are serious about our moral and legal obligation to safeguard the wellbeing of our people. Our policy of zero tolerance extends to "zero harm", which means operating without fatalities and the minimum of lost-time injuries. Our success in this regard is evident in the ever decreasing trend in our statistics.



Esor holds the following safety, quality and environmental accreditations:

- ISO 14001:2004
- ISO 9001:2008
- ISO 18001:2007

and external audits are performed accordingly.

We have a structured risk-based approach to safety management and continuously improving the culture of safety across all of our operations. The Group SHEQ Manager is responsible for standardising this across the group, supported by the Inland and Coastal SHEQ Coordinators and site safety officers. We ensure strict compliance with the Occupational Health and Safety Act, 85 of 1993 and the National Environmental Management Act. Inspection and legal compliance audits are performed regularly, SHE policies are reviewed biannually and whenever changes in legislation occur.

A detailed risk assessment is undertaken for each product type and specific tasks and risks are then rated and mitigated accordingly. This report is incorporated into the site-specific health and safety plans.

The following measures are in place to prevent casualties and injuries:

- Direct EXCO input and report back;
- Divisional Safety Committees;
- Toolbox Talks;
- Safety alerts;
- Near miss reporting;
- Health and safety investigations;
- Corrective coaching; and
- Disciplinary action in the event of proven negligence.

Our impacts (continued)

Transformation

We maintained a Level 3 B-BBEE accreditation in the year and continue to target Level 2 by 2016 based on the 2009 Construction Sector Charter Scorecard. We have put in place an improvement strategy to drive transformation in accordance with our B-BBEE group policy.

Our progress to date is set out below as measured against the "years 5 to 7" of the sector scorecard target:

DTI's BEE Code	Achievements in FY2015	**Scorecard rating (points) 2015**	Scorecard rating (points) 2014	Construction Charter's target
Ownership	• 5,32% owned by EBBSOS	**20,61**	17,66	25
Management Control	• Subsequent to verification we appointed: – black female independent non-executive director Heather Sonn (effective 21 August 2014) – black female independent non-executive director Keneilwe Moloko (effective 6 October 2014)	**5,74**	6,76	10
Employment Equity	• Percentage makeup of black employees increased to 91% from 89% • Implemented a formal recruitment policy to comply with EE measures	**4,06**	5,76	10
Skills Development	See Our People above	**11,23**	9,81	15
Preferential Procurement	• Improved spend with black female and black-owned enterprises, however, focus is required on spend with QSEs and EMEs.	**13,50**	18,96	20
Enterprise Development	• Eight companies currently benefiting under the group's ED programme. Support ranges from operational support and training to marketing and administrative • External consultants appointed to manage Enterprise Development Programme	**15**	15	15
Socio-Economic Development	• Supported two rural schools with development of their infrastructure • Provided sanitation facilities to rural KwaZulu-Natal communities	**5**	5	5
Total scores		**75,15**	78,96	100

Our communities

Having supported the education of students in the Sciences for a number of years, we have changed our focus to supporting the communities in which we are working. During the year we have undertaken infrastructure upgrades to the Kangela Primary School and the Swartklip Secondary School, both of which are in Delmas and are home to families that work at the Kusile Power Station. Further to this we extended our Sanitation project by providing additional sanitation facilities to communities in rural KwaZulu-Natal. This included the provision of clean running water and flushing toilets.

The environment

We remain committed to minimising our environmental footprint. The group is ISO 14001 accredited, a standard that addresses environmental management systems.

Environmental aim	Ways to improve environmental performance	Target 2015	Achieved 2015
Reduce the use of electricity in all buildings	• Install energy saving light bulbs • Electricity saving awareness conducted with all employees • Lights are switched off before leaving offices • Signs "switch off" posted above each light switch • Using heating and cooling systems only when necessary	10% reduction of electricity	100% achieved
Perform at least two environmental checks per month.	• Daily SHE inspections • Weekly inspections conducted on remote sites • Environmental audits conducted to test company's environmental performance against EMP, internal systems and legislation	Two checks per month	100% achieved
Reduce fuel usage of company's LDVs	• Regular servicing on vehicles (prior to exceeding service due date) • Minimise vehicle idling time • Adhere to vehicle speed limits	11,5 km/l consumption	100% achieved
Reduce spills on each contract to zero major spill – major spill being greater than 200 l	• Drip trays used on site during refuelling • Awareness conducted on spillages and ways to prevent spills during refuelling • Non-conformances issued for negligent behaviour	Zero major spills	100% achieved
Reduce printing paper usage in the entire company	• Printing double sided • Using waste paper as writing material • Proof reading before printing (reduce errors) • Awareness conducted • Soft copies of large documents (copied on a compact disk rather than printing) • Encourage paperless meetings- instead of copying material for each person use projectors	10% reduction in paper	95% achieved Area of improvement: printing double sided and checking for errors before printing

Our impacts (continued)

Environmental aim	Ways to improve environmental performance	Target 2015	Achieved 2015
Introduce waste segregation bin systems	• Recycling of paper, metal, cardboard, used oil and printer/toner cartridges • Awareness on recycling • Instructions on proper separation • Incentives for recycling- money used for site braai, etc	Recycling and waste segregation introduced at all sites	90% achieved – some smaller sites need to start their recycling process and introduce waste segregation
Improve employee awareness	• Toolbox talks conducted once a month • Toolbox talks distributed by environmental officers • Awareness discussed in SHE committee meetings and management meetings	One toolbox talk a month	100% achieved

The group is committed to the ongoing environmental education of its employees.

Esor is also a member of Birdlife South Africa.

Quality assurance

Esor's dedication to quality is the foundation of our reputation as a market leader. A rigorous quality assurance programme is in place across the group and we hold a SABS ISO 9001 certification, which is confirmed through bi-annual SABS audits and internal audits.

three

Accountability

Northern Aqueduct, KwaZulu-Natal

Esor Pipelines is currently working on two projects at the Northern Aqueduct and Contracts Manager Wiets van der Westhuizen explains that the project is on track, with no major problems encountered to date.

Phase 1, which is 70% complete, entails 1 200 mm, 1 000 mm, 800 mm and 700 mm continuously welded steel pipelines, associated civil work such as chambers for the 18 month project, nine pipe jacks and crossing the Ohlanga River. Over 4 km of the 16 km project is constructed within existing roads, with the busy Phoenix Highway and Herrwood Drive being a challenge.

Phase 3, which is 15% complete, comprises 1 200 mm and 600 mm continuously welded steel pipelines, associated civil work such as chambers for the 12 month project, three pipe jacks and the crossing of the Piesang River and its flood plain. Over 1.2 km of the 6 km project is constructed within existing roads with the busy Moriah Drive being a challenge.

Professional team:

> Phase 1 Steve Silen

> Phase 3 - Michael Lenferna

Governance

Governance practices and reporting

We strive to achieve high standards of corporate governance and adopt stringent compliance practices. Our disclosure standards are regulated by the South African Companies Act, the JSE Listings Requirements and King III, and are benchmarked against international best practice.

Changes to Esor's board

Executive directors

Bernie Krone handed over the mantle of CEO to incumbent CFO Wessel van Zyl effective 1 September 2014, in line with the group's succession plan which had been in place since Wessel's initial appointment as CFO in 2012. Bernie will continue as non-executive Chairman. Bruce Atkinson, previously financial manager, was appointed CFO effective 6 October 2014.

Independent non-executive directors

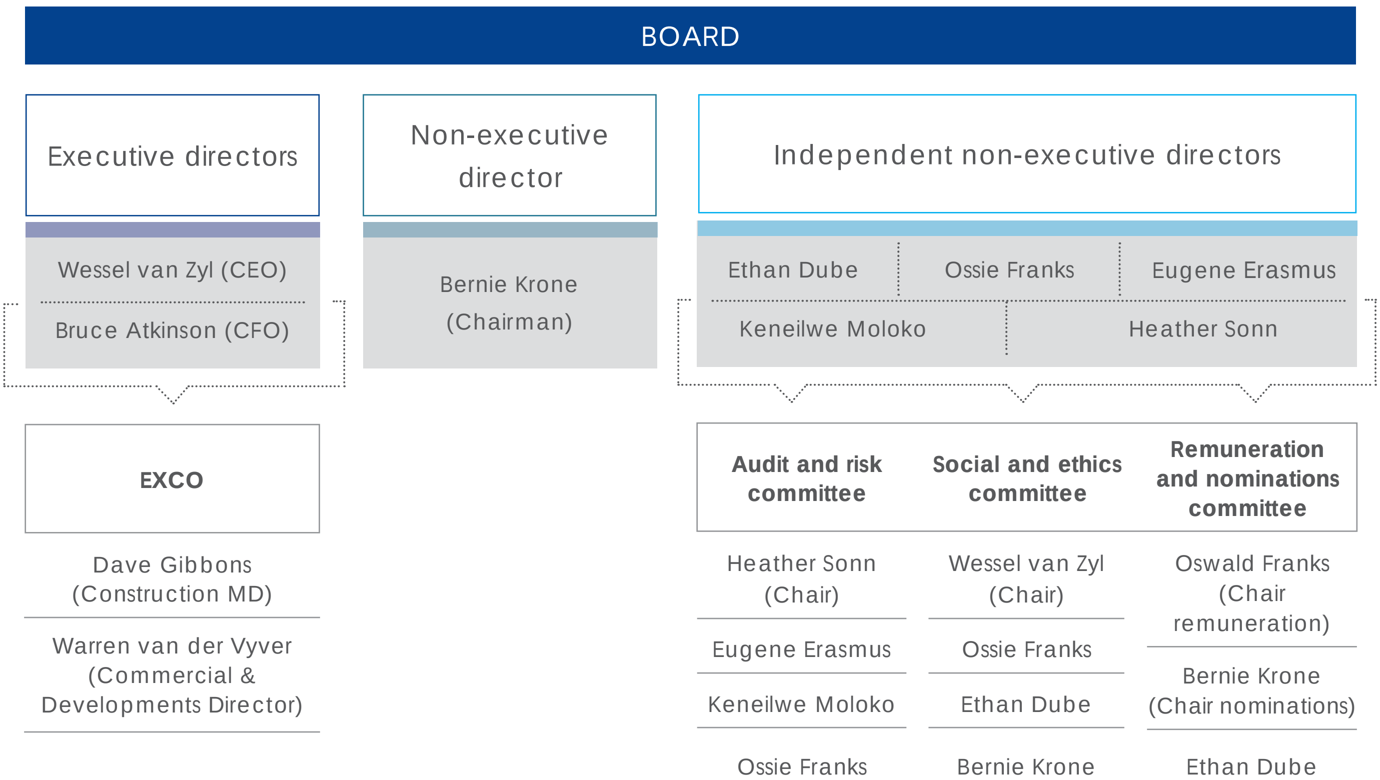
Independent non-executive Chairman Dave Thompson and independent non-executive director Dr Franklin Sonn retired from the board effective 21 August 2014. They were replaced by Heather Sonn and Eugene Erasmus, respectively, as independent non-executive directors effective 21 August 2014. Further strengthening the independence of the board, independent non-executive director Keneilwe Moloko was appointed effective 6 October 2014.

In compliance with paragraphs 3.59 and 3.84(c) of the JSE Listings Requirements, independent non-executive director Dr Oswald ("Ossie") Franks was appointed as Lead Independent Director effective 21 August 2014.

Changes to Esor's audit and risk committee

Ethan Dube, Dr Franklin Sonn and Dave Thompson retired from the audit and risk committee. Heather Sonn was appointed to the committee and assumed the position of Chair from incumbent Chair, Dr Oswald Franks, who remained in as a member of the committee. Eugene Erasmus and Keneilwe Moloko were appointed to the audit and risk committee on 21 August 2014 and 20 November 2014, respectively, following their appointments to the board.

Esor's governance structure



Company secretary

iThemba Governance and Statutory Solutions (Pty) Limited is the appointed company secretary and the board is satisfied that the directors of iThemba are appropriately qualified, competent and experienced to fulfil this function. iThemba is represented by Elise Beukes (B.Proc). She has broad experience in all aspects of commercial law, having spent three years in both litigation and commercial practice as an admitted attorney and four years as corporate legal counsel. In accordance with the requirements of the Companies Act and JSE Listings Requirements, as read with King III, she is not a director of the company and therefore has an arm's length relationship with the board.

As required in terms of the JSE Listings Requirements, the board satisfied itself by way of an informal review in the year of the suitability and qualifications of the company secretary.

It is the responsibility of the company secretary to monitor changes and developments in corporate governance and, together with the executive directors, to keep the board updated in this regard. The board reviews any changes and appropriate measures are implemented to comply in order to support a sustainable performance. The company secretary in conjunction with the CFO ensures the company complies with all current and applicable regulations and legislation. In doing so they liaise closely with the company's sponsor.

The company secretary facilitates an annual self-evaluation of the board's performance, mix of skills and individual contributions of directors, its achievements in terms of corporate governance and the effectiveness of its sub-committees. This exercise further includes a review of communications between management and the board as well as between the board and stakeholders. In the year under review the board and committees functioned as intended, according to the reviews.

The company secretary is appointed and removed by the board. All directors have access to the advice and services of the company secretary and to company records, information, documents and property in order to participate meaningfully in board meetings. The certificate required to be signed in terms of section 88 of the Companies Act appears on page 47 of the annual financial statements.

For further detail please see:

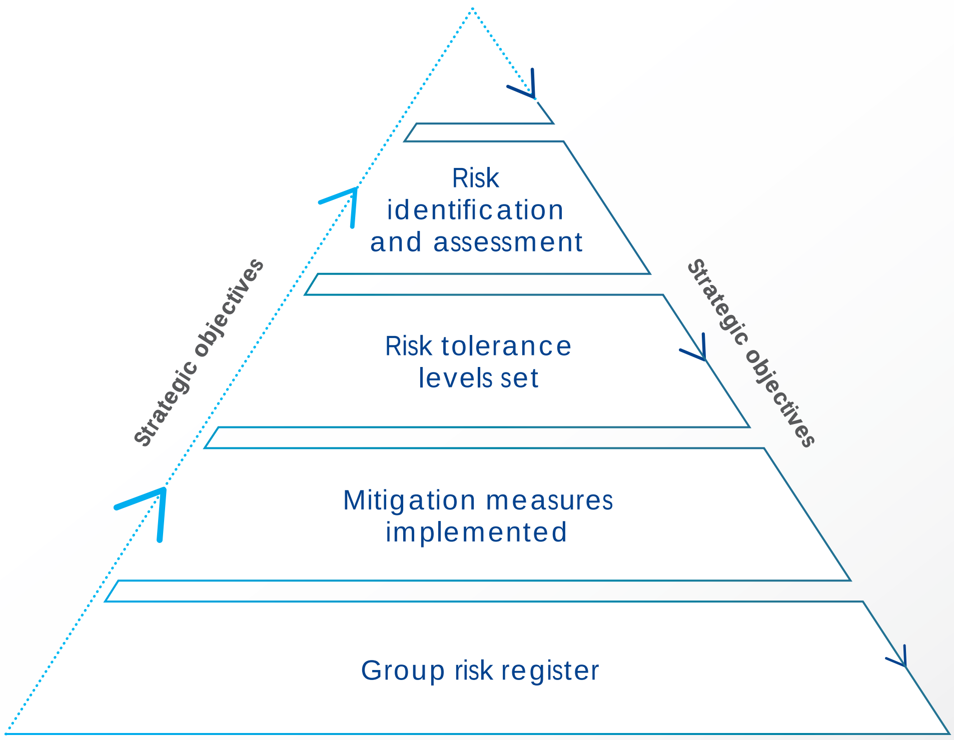
- Audit and risk committee report (page 48)
- Risk report (page 38)
- Remuneration report (page 41)
- Social and ethics committee report (page 44)
- Annexure 2: Attendance table (page 138)
- Annexure 3: Director CVs (page 139)
- Annexure 4: King III checklist (page 141)

Risk report

Esor has a risk management process in place for identifying, evaluating and monitoring the nature and extent of risks affecting our business and encompassing the management and control of these risks. Risk is assessed on an ongoing basis in a "bottom-up and top-down" approach.

Audit and risk committee

Risk management framework



Responsibility

Structure	Responsibility	FY2015 risk activity
Board	• Internal control • Approving risk levels • Approving limits for cash flow, revenue, debtors days, profit before tax, contract profitability, BEE level and safety metrics	The board reviewed and approved limits of authority, top 10 risks, BEE performance and financial and contract performance
Audit and risk committee	• Developing the integrated risk management strategy for board approval • Assisting the board in setting the levels of risk tolerance for the group in respect of the categories of risk which are detailed in the risk register • Communicating the relevant aspects, guidelines, instructions and recommendations across the group	The committee reviewed, commented on and approved all policies and strategies as per the committee's work plan that is structured to ensure a systematic and complete review process is in place

Structure	Responsibility	FY2015 risk activity
Audit and risk committee (continued)	• Reviewing and recommending for board approval the: – Integrated risk management strategy – Code of Ethics and Conduct and any corporate citizenship policies – Risk register as prepared by management, focusing on IT, fraud and reputational risks in addition to operational and other business risks (see page 15) – Internal audit reports detailing the effectiveness of risk management – Compliance with legal and regulatory provisions and the company's Memorandum of Incorporation – Cases of employee conflicts of interest, misconduct or fraud	
CEO; CFO	• Monitoring internal controls, internal audit	Ongoing per audit plan
Group Risk Officer	• Monitoring and reviewing the group's risk register, internal audit, any incidence or risk of fraud, the whistle-blowing hotline, insurance exposure and any legal disputes • Reporting quarterly to the audit and risk committee • Attending bi-monthly EXCO meetings	The Risk Manager monitored and reported to the audit and risk committee all items required in terms of the risk management policy.
Internal Audit *External consultant KPMG Services (Pty) Ltd performs the group's internal audit function. The audit and risk committee confirmed the independence of the internal audit function during the year, following a bi-annual declaration of independence by KPMG Inc. and in line with group policy regarding the use of external auditors on non-audit services. The internal audit charter defines the scope of the function.*	• Reporting to the audit and risk committee and meeting with the committee chairman and other members • Assisting management in evaluating their process for managing key operational, financial and compliance risks • Assisting management in evaluating the effectiveness of internal control systems, including compliance with internal policies • Recommending improvements to the internal control systems • Keeping abreast of new developments affecting Esor's activities and internal audit work • Being responsive to Esor's changing needs, striving for continuous improvement and monitoring integrity	The internal audit reported on the following areas: • Liquidity risk • Project performance • Stock and wage controls All areas of concern were adequately and immediately addressed with follow-up reviews conducted to ensure controls are being implemented and functioning as intended.

Risk report *(continued)*

Internal control

Due to the inherent limitations of any system of internal control, the systems are designed to manage rather than eliminate risk. These limitations include circumventing of controls or human error. As a result, absolute assurance cannot be provided. The systems are designed to provide only reasonable assurance as to the integrity and reliability of the financial statements, and further to safeguard and maintain accountability of the group's assets. The systems should also identify and curtail significant fraud, potential liability, loss and material misstatement while complying with applicable statutory laws and regulations.

The board is of the opinion that the systems of internal control have continued to improve during the year. Particular attention has been paid to improvements of controls surrounding:

- Project management and reporting
- Working capital management
- Information technology, and in particular network infrastructure, access control, software licence management and asset tracking.

External audit

KPMG Inc., the external auditors, report on whether the financial statements are fairly presented in compliance with IFRS and the Companies Act. However, it remains the responsibility of the directors to prepare the annual financial statements.

The board, assisted by the audit and risk committee, evaluates the independence and effectiveness of the external auditors and considers whether any non-audit services provided by such auditors impact/ed on their independence. Appropriate corrective action is taken if this is found to be the case.

Legal compliance

The board is ultimately responsible for ensuring compliance with laws and regulations. New legislation that impacts the company is discussed at board meetings. The Group Risk Officer, along with the executive management (CFO) and the Company Secretary, assists in this regard using a compliance checklist.

IT governance

IT governance is ultimately the responsibility of the board. An IT governance framework is in place which is customised to our environment, integrated into our key business objectives and monitored for compliance and performance. The key aims of the framework are to standardise business processes across the group, reduce internal costs and ensure sound governance.

An IT governance charter (which can be viewed on our website *www.esor.co.za* →) formalises lines of delegation from the board and audit and risk committee through to the CIO, as well as sets out policies, procedures and performance metrics which work together in the IT governance framework.

The IT governance policy in terms of the charter has taken into account the material issues affecting all relevant stakeholders including the board, employees and specific departments, for instance finance.

The board receives an annual update on IT risks from the CIO. All risks presented in the year were deemed to be within defined tolerance levels and not considered material. These included:

- Business continuity
- Prolonged downtime
- Back-up and off-site storage
- Security of network and desktops
- Policies on:
  - BYOD ("Bring your own device to work")
  - Electronic communications and social media
- Corporate governance compliance
- Physical access to servers
- Level of third party vendor access to the network
- Copyright infringement

Remuneration report

The remuneration and nominations committee assists the board in ensuring that group remuneration and recruitment is aligned with overall business strategy, with the aim of enabling Esor to attract and retain personnel who will create long-term value for all stakeholders. (See Our People on page 29 for further detail.) A formal terms of reference has been adopted and guides the committee.

The committee is further responsible for devising a remuneration policy for the group as a whole. The policy is tabled at the annual general meeting for a non-binding advisory vote by shareholders.

The following members served on the remuneration and nominations committee during the 2015 financial year:

Independent non-executive directors
Dr Oswald Franks (Chair remuneration committee)
Ethan Dube
Non-executive director
Bernie Krone (Chair nominations committee)

Details of meeting attendance are on page 138.

For the year under review, the committee:

- Endorsed the current short-term incentive structure for the executives
- Finalised a long-term incentive structure for key employees and high performers, with the assistance of external consultants and recommended for shareholder approval
- Reviewed and recommended executive remuneration for board approval
- Reviewed and recommended non-executive directors' fees for shareholder approval
- Considered and recommended an annual increase in salary bill for approval by the board
- Monitored the organisation's transformation and employment equity targets
- Confirmed the group employee retirement funding as well as healthcare benefits

Remuneration

Philosophy and policy

> "Buy, Build, Bind, Bounce"

Esor balances remuneration that will attract, incentivise and retain talent in a highly competitive market with optimising shareholder returns. Central to the group's philosophy is driving sustainable long-term performance.

The group is acutely aware of its dependence on appropriately qualified, trained and experienced specialists to achieve its goals. As a result, Esor's remuneration philosophy is to "Buy", "Build", "Bind" (the required skills necessary to enable the business to meet its current and future demands) and "Bounce" (underperforming employees).

We aim to achieve the appropriate balance between short and long-term rewards from a portion of the shareholder value created during any financial year. Our policy is to remunerate all competent performing employees between the 50th and 75th percentiles, ensuring they are properly benchmarked within their respective disciplines.

The group's executives are remunerated in terms of a cost to company or guaranteed package and are further incentivised for performance against a defined "weighted average cost of capital" parameter on a modified EVA model. Remuneration packages are calculated on total cost of employment, which comprises:

- Basic salary
- Travel allowances
- Contribution to retirement funding and risk benefits
- Company contribution to healthcare

Remuneration report *(continued)*

The fixed cost remuneration package is maintained at competitive levels, while no upper limit on performance bonuses is applied given the balanced scorecard explained below. The performance of the executive and divisional EXCO are measured against key performance areas which are weighted on a scale of 1 to 5 and based on priorities and importance aligned to:

- Business strategy, objectives and values
- Sound and effective risk management and tolerable risk parameters and entrepreneurship
- Performance of the overall group and specific business unit and individual performance against targets
- Health, environment, quality and safety targets

The payment of annual performance bonuses under the Esor short-term incentive scheme is structured to ensure that the shareholders receive the targeted return on their investment and is contingent on the achievement of "super profits" in excess of returns based on the weighted average cost of capital ("WACC").

The threshold for determining the executive bonus pool to be allocated is determined on actual PBT against the benchmarked returns based on WACC. In all cases, the payment of awarded bonuses to executive directors and group executive management is only made if, and when, there is sufficient cash available to do so.

Long-term incentive scheme

Subject to shareholder approval at the upcoming annual general meeting Esor will introduce a new share plan, namely the Esor Limited Share Plan ("the Plan") for selected employees including executive directors, in line with global best practice. The Plan provides the participants with the opportunity of receiving shares in the company in the form of restricted shares and/or conditional rights to shares in the form of performance shares, thereby allowing them the opportunity to share in the success of the company and provide direct alignment between employees and shareholders. The Plan will primarily be used as an incentive to employees to deliver the group's business strategy over the long-term. The annual award of performance shares to participants will also serve as a tool to attract prospective employees.

The initial award will be made to executives and employees in top and senior management positions. The allocation to executives will be based on an award of 75% performance shares and 25% retention shares, which is aligned with shareholder value creation. The allocation to other participants will be weighted towards retention shares and performance shares in line with the impact of individuals in creating value. This allocation will function on a sliding scale towards 25% performance shares and 75% retention shares.

The number of performance shares and/or restricted shares awarded to participants will primarily be based on the participant's annual salary, grade, performance, retention and attraction requirements and market benchmarks. The award levels will be decided by the remuneration and nominations committee each time awards are granted, by taking into account the particular circumstances at that time. Annual allocations will be benchmarked and set to a market related level of remuneration while considering the overall affordability thereof to the company.

Please see Annexure 1 on page 134 for further detail.

Review of 2015 packages

Prescribed officers

The remuneration of prescribed officers (excluding Esor's executive directors) for the year ended 28 February 2015 is set out in summary below:

	Basic salary R'000	Bonus R'000	Total R'000
Prescribed Officer 1	2 314	780	3 094
Prescribed Officer 2	1 995	120	2 215
Prescribed Officer 3	2 006	112	2 118
Prescribed Officer 4*	1 520	161	1 681

** 10 months*

Directors

The remuneration packages for executive directors and the attendance fee structure for non-executive directors is set out in detail in note 34 to the financial statements.

General remuneration practices

The group subscribes to the generic conditions of employment and wage rates for hourly paid employees as gazetted in a Sectoral Determination and in collective bargaining agreements. Most conditions of employment are therefore already standardised. During the year an Employee Remuneration and Benefits Supervisor was appointed to oversee employee grading and salary industry benchmarking. In addition, remuneration practices, policies and procedures were standardized across the group.

With effect from January 2011 all permanent salaried employees became members of the group nominated retirement fund administered by Alexander Forbes. Members of the fund are allowed the flexibility of structuring their retirement and risk benefits based on a life stage model and personal needs. Hourly paid employees are generally members of the Construction Industry Retirement Benefit Fund.

Discovery Health is the group's healthcare service provider and employees have freedom of choice with respect to the specific plan. NMG Consultants and Actuaries has been appointed as the intermediary between the healthcare provider and members.

Executive and employee contracts of employment

All permanent appointments are subject to the signing of a standard conditions of employment contract. The retirement age is currently set at 65 for all employees. The notice period is as follows:

- Executives – three months
- Salaried staff – one month

Social and ethics committee report

This committee executes the duties assigned to it by the Companies Act as well as any additional duties assigned to it by the board of directors of Esor. Although management is tasked with the day-to-day operational sustainability of their respective areas of business, the board remains ultimately responsible for group sustainability and has delegated certain duties in this regard to the social and ethics committee.

A formal charter has been adopted which guides the committee in ensuring that the group conducts its business in an ethical and properly governed manner and of reviewing or developing policies, governance structures and practices for sustainability.

The following members served on the committee during the 2015 financial year:
Executives:
Wessel van Zyl (Chair)
Executive director
Bernie Krone
Independent non-executive directors
Dr Oswald Franks
Ethan Dube

Details of meeting attendance are on page 138.

The core purpose of the committee is to regularly monitor the group's activities with regard to any relevant legislation, other legal requirements or prevailing codes of best practice.

During the reporting period the committee reviewed:
- progress in addressing the principles of the UN Global Compact Principles and the OECD
- performance in respect of BEE as measured against the Construction Sector Charter scorecard
- employment equity plans for the group
- skills and other development programmes aimed at the educational development of employees
- corporate social investment programmes
- labour practices and policies
- Code of Ethics
- SHEQ performance

Please see pages 29 to 34 "Our impacts" for reporting on the committee's areas of focus.

Management reports to the committee on matters relevant to its deliberations and the committee in turn draws relevant matters to the attention of the board and reports on them to the shareholders at the annual general meeting. Mechanisms to encourage ethical behaviour such as the Code of Ethics, corporate citizenship policies and whistle-blowers hotline were confirmed as adequate by the committee in the year.

No human rights incidents were reported during the year. In South Africa, aspects such as prohibition of child labour, forced compulsory labour and discriminatory practices are monitored by the Department of Labour in addition to the committee.

Wessel van Zyl
Social and ethics committee Chairman