ESORFRANKI LIMITED
(Registration number: 1994/000732/06)
Incorporated in the Republic of South Africa
JSE Code: ESR ISIN: ZAE000133369
("Esorfranki" or "the company" or "the group")

AUDITED ABRIDGED CONSOLIDATED RESULTS

FOR THE YEAR ENDED 29 FEBRUARY 2012

COMMENTARY

Introduction

The audited condensed consolidated financial results for the year to 29 February 2012 ("the year") reflect Esorfranki's successful turnaround with a resumption of profitability. The group's performance was enhanced by effective rationalisation and optimisation processes in all divisions cementing a healthier contract base. A number of major new contract wins saw the order book stabilise at a solid R1,8 billion at year-end.

Financial results

Consolidated revenue increased to R1,8 billion from R1,4 billion in the previous year. Earnings before interest, taxation, depreciation, impairments and amortisation ("EBITDA") increased by 170,4% to R132,7 million (2011: R49,1 million). Headline earnings per share ("HEPS") was up 148%, reversing prior year loss into a positive 6,2 cents. Net asset value ("NAV") per share increased to 241,5 cents (2011: 238,9 cents) based on the number of shares in issue at year-end, net of treasury shares.

Review of operations

Revenue from foreign operations in **Esorfranki Geotechnical** grew 34% to R273,7 million, driving growth in the division's total revenue of 4% year-on-year. Record revenues were recorded specifically in Mozambique and Mauritius. Foreign operations achieved an operating margin of 14% and contributed 68% to the division's total operating profit. In contrast South African-based revenue was down 8% year-on-year due to intensifying competition, which further saw a reduced gross margin contribution. Operating margins did, however, improve substantially in the second half of the year to 10%.

Esorfranki Civils' revenue increased 59% and the division returned to profitability in the second half of the year, following prior losses and margin reversals on the R21 contract and contract completion costs on the N4 project (Phase I). These contracts have now been concluded. The division has adopted stringent risk management in its contract tendering and project execution policies to avoid a recurrence of such adverse challenges in the future. Operating margins in the division improved substantially to 10% in the second half of the year due to optimised operational efficiency on existing long-term contracts. Exceptional plant utilisation was achieved on the back of the ongoing capital expansion programme.

Despite tightly competitive conditions in the Government projects sector, the division managed to grow its order book by 41%. Private sector awards included a R271 million construction contract for an integrated township development related to the mining industry.

Esorfranki Pipelines' revenue was up 35%, notwithstanding a turbulent financial year which included the cancellation of the Western Aqueduct contract. Revenue was further negatively impacted by contractual disputes on the flagship BG 3 contract. However, the latter was resolved in Esorfranki's favour on mediation. It has since been referred to arbitration by the client and is expected to be finalised in FY2013. Operating margins sustained a break even financial performance.

The division secured a number of new major contracts in the last quarter of the financial year.

CAPEX

During the year the group acquired property, plant and equipment amounting to R257,7 million (2011: R50,4 million).

Esorfranki Geotechnical acquired land and developed workshops and offices in Mauritius totalling R4,5 million, and invested R51,1 million in rebuilds and new equipment including a R17,0 million BG 28 oscillator piling rig. **Esorfranki Civils** spent R205,3 million in acquiring plant to enhance capacity on the back of long-term secured contracts while **Esorfranki Pipelines** invested R0,6 million.

The total capex approved for the year ahead is R199 million.

BEE

Esorfranki is currently a 'Level 4' contributor in terms of the Department of Trade & Industry's B-BBEE Codes of Good Practice. During the year ownership was diluted by 8,67 points following the completion of the rights issue. In line with the Construction Charter's targeted increase in ownership from 27,5% to 30,0% by December 2013, the group will consider a B-BBEE equity transaction. To this end Esorfranki has initiated an evaluation process to ensure that the group's strategic objectives, compliance with the Codes and properly representative ownership are achieved.

78% of the group's 3 402 (2011: 3 184)-strong workforce is Black and emphasis is on skills training and development to accelerate promotion into middle and senior management.

Prospects

Esorfranki will continue to explore further expansion into Africa, while also keeping a keen eye on the domestic market. The focus going forward will remain on expansion into new markets in Africa, to strengthen and diversify revenue streams while taking advantage of the South African Government's renewed commitment to infrastructure as per February's State of the Nation Address. It should offer Esorfranki significant opportunity, especially in terms of development and unlocking of South Africa's resource wealth through transport, energy and water logistics.

The group has secured a number of significant local and African contracts in all divisions to overcome tough market conditions. **Esorfranki Geotechnical's** first contract in Ghana, worth R13 million, has been completed and formed the foundation for a further three contracts in the country for lateral support and marine structures worth R120 million. **Esorfranki Civils** has scooped long-term contracts including from Bakwena Corridor Concessionaire, Gauteng Roads Department, Eskom and Anglo Coal, amongst others. **Esorfranki Pipelines'** recent new contracts include a major project in KwaZulu-Natal for Umgeni Water valued at R130 million.

The next year to 18 months will see Esorfranki continue optimising efficiencies and prioritising diversification of products, including opportunities in the solar green energy arena for Esorfranki Geotechnical.

Within South Africa, infrastructure development in power, water, transport and resources is desperately required. Esorfranki is well-positioned to take advantage of new projects as and when they come to the market.

Directorate

Andy Brookstein, former Managing Director of Esorfranki Civils, was appointed as an executive director of the group with effect from 26 August 2011.

Dividend declaration

The board has resolved not to declare a dividend in respect of this financial year (2011: Nil). It remains the policy of the company to review the dividend policy annually in light of solvency, liquidity, cash flow, gearing and capital requirements.

Events after the reporting date

There were no significant events after the reporting date.

Statement of compliance

The audited abridged consolidated results for the year have been prepared in accordance with the recognition and the measurement requirements of International Financial Reporting Standards, the presentation and disclosure requirements of IAS 34: Interim Financial Reporting, the AC 500 standards and the JSE Limited Listings Requirements and in the manner required by the South African Companies Act, 71 of 2008. The accounting policies applied in preparation of the audited abridged consolidated annual financial statements are consistent with those applied in the group's audited consolidated annual financial statements for the year ended 28 February 2011, which comply with International Financial Reporting Standards.

Audit opinion

The auditors, KPMG Inc., have issued an unmodified audit opinion on the group's annual financial statements for the year ended 29 February 2012. The audit was conducted in accordance with International Standards on Auditing. A copy of their audit report is available for inspection at the company's registered office. These audited abridged consolidated annual financial statements have been derived from the group audited annual financial statements and are consistent in all material respects.

Annual general meeting

The annual general meeting of the company will be held at the company's offices, 30 Activia Road, Activia Park, Germiston on Friday, 13 July 2012 at 10:00. The salient dates relating to the annual general meeting are as follows:

Last day to trade to be eligible to vote at the annual general meeting	Friday, 29 June 2012
Record date for determining those shareholders entitled to vote at the annual general meeting	Friday, 6 July 2012

Appreciation

We thank our management and staff for their steadfast commitment during another trying year. We also thank our board for their continued invaluable guidance and extend our appreciation to our business associates, customers and shareholders for their ongoing support.

On behalf of the board

Bernie Krone
CEO

Wayne van Houten
CFO

28 May 2012

HIGHLIGHTS

- HEPS 6,2 CENTS PER SHARE
- REVENUE R1,8 BILLION
- FOREIGN REVENUE R274 MILLION
- ORDER BOOK R1,8 BILLION

Abridged consolidated statement of comprehensive income

	2012 R'000	2011 R'000
Revenue	**1 771 692**	1 366 433
Cost of sales	**(1 549 955)**	(1 204 988)
Gross profit	**221 737**	161 445
Other income	**1 705**	3 654
Operating expenses	**(90 786)**	(116 033)
Profit before interest, income tax, amortisation, impairments and depreciation	**132 656**	49 066
Depreciation, impairments and amortisation	**(79 510)**	(65 489)
Results from operating activities	**53 146**	(16 423)
Finance costs	**(73 233)**	(54 371)
Finance income	**49 726**	23 703
Profit/(loss) before income tax	**29 639**	(47 091)
Income tax expense	**(11 423)**	6 330
Profit/(loss) after tax	**18 216**	(40 761)
Other comprehensive income		
Foreign currency translation differences for foreign operations	**13 655**	(21 334)
Actuarial loss on post-retirement benefit	**(73)**	(261)
Income tax on translation differences	**(1 862)**	2 441
Other comprehensive income for the year, net of tax	**11 720**	(19 154)
Total comprehensive income attributable to:		
Owners of the company	**29 936**	(59 915)
Basic earnings/(loss) per share (cents)	**4,7**	(13,9)
Diluted earnings/(loss) per share (cents)	**4,7**	(13,8)
Headline earnings/(loss) per share (cents)	**6,2**	(12,9)
Diluted headline earnings/(loss) per share (cents)	**6,2**	(12,8)
Reconciliation of headline earnings/(loss):		
Profit/(loss) attributable to ordinary shareholders	**18 216**	(40 761)
Adjusted for:		
Loss on disposal of property, plant and equipment	**5 830**	4 609
Gain on disposal of subsidiary	**–**	(3 654)
Impairment of assets	**–**	2 032
Headline earnings/(loss) attributable to ordinary shareholders	**24 046**	(37 774)
Number of ordinary shares ('000)		
in issue	**395 185**	302 162
diluted weighted average	**386 731**	294 555
weighted average	**386 731**	293 763

Abridged consolidated statement of financial position

	2012 R'000	2011 R'000
ASSETS		
Non-current assets	**1 151 181**	966 187
Property, plant and equipment	**737 312**	565 775
Intangible assets	**88 226**	90 117
Goodwill	**305 715**	305 715
Financial assets at fair value through profit or loss	**1 291**	–
Deferred tax assets	**18 637**	4 580
Current assets	**665 288**	498 164
Inventories	**20 622**	16 983
Non-current assets held-for-sale	**3 293**	–
Other investments	**–**	420
Taxation	**15 617**	3 855
Trade and other receivables	**529 103**	413 768
Cash and cash equivalents	**96 653**	63 138
Total assets	**1 816 469**	1 464 351
EQUITY AND LIABILITIES		
Share capital and reserves	**937 432**	703 156
Share capital and premium	**592 045**	389 449
Equity compensation reserve	**16 188**	14 444
Foreign currency translation reserve	**(21 395)**	(33 188)
Retained earnings	**350 594**	332 451
Non-current liabilities	**316 658**	195 562
Secured borrowings*	**179 911**	84 516
Post-retirement benefits	**1 806**	1 657
Deferred tax liability	**134 941**	109 389
Current liabilities	**562 379**	565 633
Current portion of secured borrowings*	**105 923**	241 527
Bank overdraft	**3 047**	–
Taxation	**15 872**	9 953
Provisions	**16 350**	3 213
Trade and other payables	**421 187**	310 940
Total equity and liabilities	**1 816 469**	1 464 351
Net asset value per share (cents)	**241,5**	238,9
Net tangible asset value per share (cents)**	**168,5**	142,1

* Interest-bearing debt
** (Net asset value less intangible assets, net of tax)/(shares in issue less treasury shares)

Abridged consolidated statement of cash flows

	2012 R'000	2011 R'000
Cash flows from operating activities	**124 205**	58 075
Cash receipts from customers	**1 541 006**	1 464 009
Cash paid to suppliers and employees	**(1 385 546)**	(1 330 934)
Cash generated from operations	**155 460**	133 075
Dividends paid	**–**	(43 642)
Finance income	**49 726**	23 703
Finance cost	**(73 090)**	(54 224)
Taxation paid	**(7 891)**	(837)
Cash flows from investing activities	**(256 057)**	(41 979)
Proceeds from sale of property, plant and equipment	**8 872**	3 032
Disposal of business, net of cash acquired	**–**	(980)
Acquisition of property, plant and equipment	**(257 722)**	(50 373)
(Acquisition)/disposal of investments and financial assets	**(7 207)**	6 342
Cash flows from financing activities	**162 320**	(69 820)
Proceeds from the issue of share capital	**202 596**	1 261
Decrease in secured borrowings	**(40 209)**	(70 665)
Post-retirement benefits paid	**(67)**	(416)
Net increase/(decrease) in cash and cash equivalents	**30 468**	(53 725)
Cash and cash equivalents at beginning of year	**63 138**	116 863
Cash and cash equivalents at end of year	**93 606**	63 138

Abridged consolidated statement of changes in equity

	Share capital R'000	Share premium R'000	Equity compensation reserve R'000	Translation reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 1 March 2010	292	396 664	8 253	(14 295)	417 115	**808 029**
Loss for the year	–	–	–	–	(40 761)	**(40 761)**
Other comprehensive income						
Foreign currency translation differences from foreign operations	–	–	–	(18 893)	–	**(18 893)**
Post-retirement benefit adjustment	–	–	–	–	(261)	**(261)**
Total other comprehensive income	–	–	–	(18 893)	(261)	**(19 154)**
Total comprehensive income for the year	–	–	–	(18 893)	(41 022)	**(59 915)**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Share issue expenses	–	(8 768)	–	–	–	**(8 768)**
Dividends to equity holders	–	–	–	–	(43 642)	**(43 642)**
Share-based payment transactions	–	–	6 191	–	–	**6 191**
Treasury shares – options exercised	2	1 259	–	–	–	**1 261**
Total contributions by and distributions to owners	2	(7 509)	6 191	–	(43 642)	**(44 958)**
Balance at 28 February 2011	294	389 155	14 444	(33 188)	332 451	**703 156**
Profit for the year	–	–	–	–	18 216	**18 216**
Other comprehensive income						
Foreign currency translation differences from foreign operations	–	–	–	11 793	–	**11 793**
Post-retirement benefit adjustment	–	–	–	–	(73)	**(73)**
Total other comprehensive income	–	–	–	11 793	18 143	**29 936**
Total comprehensive income for the year	–	–	–	11 793	18 143	**29 936**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Rights issue	93	199 907	–	–	–	**200 000**
Share-based payment transactions	–	–	1 744	–	–	**1 744**
Treasury shares – options exercised	1	2 595	–	–	–	**2 596**
Total contributions by and distributions to owners	94	202 502	1 744	–	–	**204 340**
Balance at 29 February 2012	388	591 657	16 188	(21 395)	350 594	**937 432**

	2012	2011
Dividends per ordinary share (cents)	**–**	–

Information about Reportable Segments

	Geotechnical 2012 R'000	Geotechnical 2011 R'000	Civils 2012 R'000	Civils 2011 R'000	Pipelines 2012 R'000	Pipelines 2011 R'000	Corporate and Eliminations 2012 R'000	Corporate and Eliminations 2011 R'000	Consolidated 2012 R'000	Consolidated 2011 R'000
External revenue	**723 475**	684 989	**820 396**	512 439	**227 821**	169 005	**–**	–	**1 771 692**	1 366 433
Inter segment revenue	**10 617**	21 683	**3 655**	6 348	**–**	–	**(14 272)**	(28 031)	**–**	–
Segment revenue	**734 092**	706 672	**824 051**	518 787	**227 821**	169 005	**(14 272)**	(28 031)	**1 771 692**	1 366 433
Segment result:										
Profit/(loss) before interest and taxation	**50 253**	18 747	**25 376**	(3 113)	**2 234**	(3 548)	**(24 717)**	(28 509)	**53 146**	(16 423)
Finance cost	**(56 352)**	(53 608)	**(15 680)**	(9 286)	**(72)**	(79)	**(1 129)**	8 602	**(73 233)**	(54 371)
Finance income	**50 561**	24 858	**4 224**	4 168	**1 915**	3 361	**(6 974)**	(8 684)	**49 726**	23 703
Taxation	**(921)**	7 773	**(8 242)**	(3 014)	**(4 407)**	(794)	**2 147**	2 365	**(11 423)**	6 330
Segment profit/(loss)	**43 541**	(2 230)	**5 678**	(11 245)	**(330)**	(1 060)	**(30 673)**	(26 226)	**18 216**	(40 761)
Segment assets	**722 746**	662 228	**583 537**	454 761	**84 007**	87 092	**426 179**	260 270	**1 816 469**	1 464 351
Segment liabilities	**321 438**	643 020	**531 512**	219 261	**83 817**	54 024	**(57 730)**	(155 109)	**879 037**	761 196
Capital and non-cash items:										
Additions to property, plant and equipment	**51 100**	11 794	**205 317**	17 964	**620**	6 104	**685**	14 512	**257 722**	50 374
Depreciation	**21 686**	23 183	**45 452**	21 039	**2 817**	1 640	**9 555**	14 807	**79 510**	60 669
Impairment loss	**–**	1 624	**–**	–	**–**	–	**–**	1 200	**–**	2 824
Number of employees	**1 191**	1 287	**1 820**	1 453	**373**	434	**18**	10	**3 402**	3 184

Geographical information	South Africa 2012 R'000	South Africa 2011 R'000	Other regions 2012 R'000	Other regions 2011 R'000	Consolidated 2012 R'000	Consolidated 2011 R'000
Total revenue	**1 497 994**	1 162 814	**273 698**	203 619	**1 771 692**	1 366 433
Property, plant and equipment	**625 352**	463 705	**111 960**	102 070	**737 312**	565 775

DIRECTORS: DM Thompson* *(Chairman)*; B Krone *(CEO)*; W van Houten *(CFO)*; AC Brookstein; EG Dube*; MB Mathabathe*; Dr FA Sonn* **Independent non-executive*
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QUALITY IS OUR FOUNDATION