

### COMMENTARY

The audited summarised consolidated results of Esorfranki for the year ended 28 February 2011 ("the year") reflect a struggling construction sector which continued to depress group revenue and pressure margins. Esorfranki's weak performance was further impacted by substantial losses incurred on problem contracts and unusually inclement weather which hampered project progression.

Post year-end the group structure was streamlined for greater cost-efficiency and resilience in the prevailing economic conditions. This saw the divisionalisation of operations and their amalgamation into a single operating company effective from 1 March 2011. All group businesses are now housed under the re-branded company Esorfranki Construction (Pty) Limited, consolidating and strengthening the Esorfranki brand in the market. Esorfranki Geotechnical, Esorfranki Civils and Esorfranki Pipelines are therefore divisions of Esorfranki Construction ("the restructuring"). Most operations are now located centrally at Esorfranki's Germiston Head Office, which was extended during the year

Esorfranki's work in hand and future pipeline remain healthy, with a secured order book in excess of R1,9 billion at the date of this announcement, and awarded work imminently pending of approximately R1,2 billion.

### Financial results

Consolidated revenue has reduced to R1,366 billion from R1,858 billion in the previous year. Earnings before interest, depreciation, impairments, amortisation and taxation ("EBITDA") has fallen by 87,4% to R49,1 million from R389,1 million. Headline earnings per share ("HEPS") also declined by 118,1% to a loss of 12,9 cents per share. Net asset value (NAV) per share was down 13,3% to 238,86 cents from 275,63 cents based on the number of shares in issue at year-end, net of treasury shares.

The group incurred once-off restructuring costs of approximately R7 million and contract losses for the year of approximately R90 million.

## Review of operations

Generally the limping construction market was characterised by increasing contract award delays, postponements and cancellations and curtailed tendering activity - all exacerbated by the post 2010 Soccer World Cup hiatus protracted payment delays and at Government level, administrative bottlenecks. In Africa, liquidity constraints also continued to hamper the release to market of new contracts and progress on existing contracts underway.

As a result of tightened competition and margin squeeze, all of the group's divisions under-recovered on overheads. All expected losses have been recognised as determined by reference to the latest estimates of contract revenue, costs and contract outcome

Esorfranki Geotechnical: Revenue was stabilised during the year at R706,7 million, albeit 25% lower than the R944,9 million for the previous year. Operating profit dropped significantly from R164,1 million to R18,7 million. Since year-end new contracts have been awarded including a R40 million piling contract for the Kalagadi Manganese Project and a R17 million Odex-piling contract on the K71/R55 road project, which are already underway. Piling work worth R30 million remains at Kusile. The redeployment of available capacity into sub-Saharan Africa to service fast-growing regions will be a priority in this division.

Esorfranki Civils: The division curtailed the reduction in revenue to 27%, from R715 million in the previous year to R518,8 million. However, more than 50% under-utilisation of available capacity pressured costs, and contributed to an operating loss of R3,1 million (2010: operating profit R144,5 million). Competition in the civils industry is expected to remain extremely tough. Notwithstanding this, the division's recent contract awards include R200 million work on the K71/R55 road, an R80 million contract for Road Agency Limpopo (RAL), R310 million at Kusile and R330 million on the Bakwena N4 Toll Road. In addition R200 million worth of ongoing and pending work in mining is in hand and a cross-border project in Mozambique is expected to commence in August 2011.

Esorfranki Pipelines: Revenue declined to R169 million from R229,3 million with an operating loss of R3,5 million compared to an operating profit of R31,1 million for the previous year. The division has a R264 million order book in hand as at 28 February 2011, including a R60 million project on Phase III of Mooihoek. In addition the BG3 contract started full production in April 2011. Phase II of the Western Aqueduct for Ethekwini Water and Sanitation Services was tendered for in February 2010, with the tender validity period extended no less than five times. In December 2010 the group received a letter of intent, which is now subject to an appeals process. A decision is expected shortly.

In line with its focus on strict financial discipline, Esorfranki's CAPEX for the year of R50,4 million was significantly lower than the R96 million expended in the previous year. Esorfranki Civils accounted for the majority with CAPEX of R18 million. The R12 million investment in Esorfranki Geotechnical followed a major re-tooling in the previous years, with CAPEX forecasts in this division remaining low and relating to maintenance only. An amount of R6 million was spent at Esorfranki Pipelines. A further R14,2 million was spent on properties.

The board has authorised an anticipated CAPEX requirement of R278,3 million to gear up for recently awarded and pending contracts.

## **Black Economic Empowerment**

Esorfranki improved its rating to a 'Level 4' contributor (from 'Level 5') in terms of the Department of Trade & Industry's B-BBEE Codes of Good Practice. This is a critical differentiator in an environment dependent on Government infrastructure spend and defined by intense price competition.

Notwithstanding the strengthening of its B-BBEE platform, Esorfranki remains focused on continually reviewing and enhancing all areas of scorecarding.

Incorporating retail shareholders on the open market, direct black ownership scored at 29,64% (2010: 29,07%), of which 4,55% (2010: 5,87%) comprised Black female equity participation. Included in this is the 4,4% stake in the company held by Black staff through the Esor Broad Based Share Ownership Scheme.

More than 83% of the group's 3 184 strong workforce is Black and emphasis is placed on skills training and development to accelerate promotion into middle and senior management.

## Competition Commission update

As previously announced Esorfranki was named in July 2009 by the Competition Commission in an investigation into alleged anti-competitive behaviour in the piling and drilling industry. The allegations related to transgressions by Franki Africa prior to that company's acquisition by the group and by the then-named Esor (Pty) Limited prior to

Esorfranki has co-operated fully with the Competition Commission and is committed to resolving the matter as soon

# Post year-end events

# Rights offer

The rights offer announced in November 2010 was concluded post year-end in March 2011, successfully raising R200 million for the group

The fully underwritten rights offer comprised 93 million shares at a subscription price of R2,15 each and was aimed at settling acquisition debt and strengthening the statement of financial position.

This initiative facilitated the waiver of loan agreement covenants and the favourable re-negotiation of facility

# **Prospects**

With 3,5% GDP growth in South Africa anticipated in 2011, increasing to 4% in 2012, a gradual recovery in the economy is evident. Nonetheless market conditions are expected to remain challenging in the short-term with a real improvement only noticeable in 2012 and more strongly in 2013. Positively, Esorfranki has concluded lossmaking contracts and secured a number of substantial new projects, which affirm the first signs of improving trading

Although sub-Saharan Africa offered little respite for the group during the year, high GDP growth targets in buoyant regions including Mozambique and Angola bode well for future growth. Other regions such as Mauritius and Tanzania also offer robust prospects and the group has secured a R35 million contract in Mozambique and a R27 million contract in Tanzania. Esorfranki is further targeting R200 million worth of work in Angola.

A key growth driver in sub-Saharan Africa is expected to be the increasing demand for beneficiated resources. In addition the desperate need for infrastructure development in power, water, transport and resources should result in inevitable investment, especially given the South African Government's recently-reiterated commitment in this regard. Esorfranki is well-positioned to take advantage of new projects coming to market.

# Dividend declaration

The board has resolved not to declare a dividend in respect of this financial year (2010: 15 cents per share). It remains the policy of the company to review the dividend annually in light of solvency, liquidity, cash flow, gearing and capital requirements

# Statement of compliance

The audited summarised 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 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 summarised consolidated annual financial statements are consistent with those applied in the group's audited consolidated annual financial statements for the year ended 28 February 2010, which comply with International Financial Reporting Standards.

The auditors, KPMG Inc., have issued an unmodified audit opinion on the group's financial statements for the year ended 28 February 2011. 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 summarised annual financial statements have been derived from the group audited annual financial statements and are consistent in all

The annual general meeting of the company will be held at the company's offices, 30 Activia Road, Activia Park, Germiston on 24 June 2011 at 10h00.

On behalf of the board

**Bernard Krone** Chief Executive Office 26 May 2011

Wayne van Houten Chief Financial Office

# **AUDITED SUMMARISED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

## **KEY FINANCIAL FEATURES**

HEADLINE LOSS 118.6% to R37.9 million

REVENUE 26,5% to R1,366 billion

EBITDA 87,4% to R49,1 million

R543 million

R1,456 billion **ORDER BOOK** (2010: R1 573 billion)

YEAR-END (2010: R864 millio

MARKET CAPITALISATION AT

CLOSING SHARE PRICE AT 180 cents per share

Summarised consolidated statement of comprehensive income 2010 R'000 Revenue 1 366 433 (1 204 988) 1 857 817 Cost of sales (1 361 041) Gross profit 161 445 496 776 Other income 3 654 3 937 (116 033) (111 661) Operating expense Profit before interest, tax, amortisation, impairments 49 066 389 052 and depreciation (65 489) (83 478) Depreciation, impairments and amortisation Results from operating activities (16423)305 574 Finance income 23 703 63 281

(Loss)/profit before income tax (47 091) 6 330 275 749 (78 108) Income tax expense 197 641 (Loss)/profit after tax (40761)Other comprehensive income (21 333) (32 630) Foreign currency translation differences for foreign operations Actuarial loss on post-retirement benefit Income tax on translation differences (261) 2 441 (28) 3 683 Other comprehensive loss for the period, net of tax (19 153) (28975)Total comprehensive (loss)/income attributable to: (59 914) 168 666 Owners of the company (13,9) (13,8) 69,4 68,6 Basic (loss)/earnings per share (cents) Diluted (loss)/earnings per share (cents) Headline (loss)/earnings per share (cents) Diluted headline (loss)/earnings per share (cents) (12,9) (12,8) 71,3 70,5 Reconciliation of headline (loss)/earnings (Loss)/profit attributable to ordinary shareholders Adjusted for: (40 761) 197 641 Loss on disposal of property, plant and equipment Gain on disposal of subsidiary 4 609 (3 654) 5 396

2 032

(37 774)

302 162

203 037

302 162

284 743

FOR THE YEAR ENDED 28 FEBRUARY 2011

Summarised consolidated statement of financial position 2010 R'000 R'000 ASSETS 966 187 999 551 Non-current assets Property, plant and equipment 596 429 93 737 565 775 Intangible assets 90 117 Goodwill Deferred tax assets 305 715 3 670 305 715 4 580 Current assets 498 164 648 273 Inventories 16 983 14 827 Other investments 6 762 420 9 952 499 869 3 855 Trade and other receivables 413 768 Cash and cash equivalents 116 863 1 464 351 1 647 824 Total assets **EQUITY AND LIABILITIES** 703 156 808 028 Share capital and premium 389 449 396 956 Equity compensation reserve 14 444 8 253 (14 296) 417 115 Foreign currency translation reserve Retained earnings 332 451 Non-current liabilities 405 711 195 562 Secured borrowings\* 84 516 275 031 Post-retirement benefits
Deferred tax liabilities 1 665 129 015 109 389 Current liabilities 565 633 434 085 Current portion of secured borrowings 241 527 121 677 Taxation 9 953 6 644 21 087 310 940 I Trade and other payables 284 677 Total equity and liabilities 1 464 351 1 647 824 275,6 177,5 Net asset value per share (cents) 238,9 Tangible net asset value per share (cents)\* 142.1 \*Interest-bearing debt (Net asset value less intangible assets, net of tax)/(shares in issue less treasury shares)

Summarised consolidated statement of cash flows 2010 2011 R'000 Cash flows from operating activities 58 074 159 635 Cash receipts from customers 1 464 009 1 930 748 Cash paid to suppliers and employees (1 330 934) (1 572 090) Cash generated from operations 133 074 358 658 (42 429) 63 281 (43 642) Finance income 23 703 Finance cost Taxation paid (54 224) (92 977) (126 898) Cash flows from investing activities (199 270) (41979)Proceeds from sale of property, plant and equipment 3 032 3 085 (113 828) Disposal/acquisition of business, net of cash acquired (96 034) 7 507 Acquisition of property, plant and equipment (50 373) Disposal of investments 6 342 Cash flows from financing activities (69 820) (116 327) Proceeds from the issue of share capital 1 261 5 311 Decrease in secured borrowings (70 665)(121559)Post-retirement benefits paid (416) (79<sup>°</sup>) Net (decrease)/increase in cash and cash equivalents (155 962) (53725)272 825 Cash and cash equivalents at beginning of period Cash and cash equivalents at end of period 63 138 116 863

Equity

Summarise	Summarised consolidated statement of changes in equity									

Headline (loss)/earnings attributable to ordinary shareholders

	Share capital R'000	Share premium R'000	compensation reserve R'000	Translation reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 1 March 2009	278	338 800	3 917	14 651	261 931	619 577
Profit for the year Other comprehensive income	-	-	-	-	197 641	197 641
Foreign currency translation differences from foreign operations  Post-retirement benefit adjustment	- -	- -	- -	(28 947)	(28)	(28 947) (28)
Total other comprehensive loss	-	_	-	(28 947)	(28)	(28 975)
Total comprehensive (loss)/income for the year Transactions with owners, recorded directly in equity Contributions by and distributions to owners	-	-	-	(28 947)	197 613	168 666
Issue of ordinary shares related to business combinations	13	57 869	=-	-	-	57 882
Share issue expenses	-	(5)	-	-	- (40,400)	(5)
Dividends to equity holders Share-based payment transactions	_	_	4 336	_	(42 429)	(42 429) 4 336
Treasury shares	1	_		_	_	1
Total contributions by and distributions to owners	14	57 864	4 336	-	(42 429)	19 785
Balance at 1 March 2010 Loss for the year	292 -	396 664 -	8 253 —	(14 296) —	417 115 (40 761)	808 028 (40 761)
Other comprehensive income Foreign currency translation differences from foreign operations Post-retirement benefit adjustment	<del>-</del>	<u>-</u> -	<u>-</u> -	(18 892)	(261)	(18 892) (261)
Total other comprehensive loss	_	-	_	(18 892)	(261)	(19 153)
Total comprehensive loss for the year	-	-	-	(18 892)	(41 022)	(59 914)
Transactions with owners, recorded directly in equity Contributions by and distributions to owners						
Share issue expenses	_	(8 768)	-	-		(8 768)
Dividends to equity holders Share-based payment transactions	_	-	6 191	-	(43 642)	(43 642) 6 191
Treasury shares	2	1 259	0 191	-	_	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

# Segmental report

Impairment of assets

Number of ordinary shares ('000)

diluted weighted average

weighted average

Esorfranki Geotechnical		Esorfranki Civils		Esorfranki Pipelines		Corporate & Eliminations		Consolidated	
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
706 672	944 862	518 787	715 033	169 005	229 231	(28 031)	(31 309)	1 366 433	1 857 817
18 747	164 147	(3 113)	144 520	(3 548)	31 068	(28 509)	(34 161)	(16 423)	305 574
(53 608)	(95 345)	(9 286)	(8 530)	(79)	-	8 602	10 769	(54 371)	(93 106)
24 858	63 956	4 168	4 805	3 361	5 404	(8 684)	(10 884)	23 703	63 281
7 773	(36 724)	(3 014)	(40 278)	(794)	(11 885)	2 365	10 779	6 330	(78 108)
(2 230)	96 034	(11 245)	100 517	(1 060)	24 587	(26 226)	(23 497)	(40 761)	197 641
662 228	754 541	454 761	442 162	87 092	167 121	260 270	284 000	1 464 351	1 647 824
643 020	717 460	219 261	197 009	54 024	127 733	(155 109)	(202 406)	761 196	839 796
11 794	52 844	17 964	49 711	6 104	3 096	14 512	(9 617)	50 374	96 034
23 183	32 226	21 039	19 430	1 640	3 120	14 807	9 417	60 669	64 193
1 624	—	-	-	-	-	1 200	-	2 824	-
1 287	1 562	1 453	1 228	434	427	10	8	3 184	3 225
	2011 R'000 706 672 18 747 (53 608) 24 858 7 773 (2 230) 662 228 643 020 11 794 23 183 1 624	2011 2010 R'000 R'000  706 672 944 862  18 747 164 147 (53 608) (95 345) 24 858 63 956 7773 (36 724) (2 230) 96 034 662 228 754 541 643 020 717 460  11 794 52 844 23 183 32 226 1 624 -	2011         2010         2011           R'000         R'000         R'000           706 672         944 862         518 787           18 747         164 147         (3 113)           (53 608)         (95 345)         (9 286)           24 858         63 956         4 168           7 773         (36 724)         (3 014)           (2 230)         96 034         (11 245)           662 228         754 541         454 761           643 020         717 460         219 261           11 794         52 844         17 964           23 183         32 226         21 039           1 624         -         -	2011         2010         2011         2010           R'000         R'000         R'000         R'000           706 672         944 862         518 787         715 033           18 747         164 147         (3 113)         144 520           (53 608)         (95 345)         (9 286)         (8 530)           24 858         63 956         4 188         4 805           7 773         (36 724)         (3 014)         (40 278)           (2 230)         96 034         (11 245)         100 517           662 228         754 541         454 761         442 162           643 020         717 460         219 261         197 009           11 794         52 844         17 964         49 711           23 183         32 226         21 039         19 430           1 624         —         —         —	2011         2010         2011         2010         2011           R'000         R'000         R'000         R'000         R'000           706 672         944 862         518 787         715 033         169 005           18 747         164 147         (3 113)         144 520         (3 548)           (53 608)         (95 345)         (9 286)         (8 530)         (79)           24 858         63 956         4 168         4 805         3 361           7 773         (36 724)         (3 014)         (40 278)         (794)           (2 230)         96 034         (11 245)         100 517         (1 060)           662 228         754 541         454 761         442 162         87 092           643 020         717 460         219 261         197 009         54 024           11 794         52 844         17 964         49 711         6 104           23 183         32 226         21 039         19 430         1 640           1624         —         —         —         —         —	2011         2010         2011         2010         2011         2010         2011         2010         2011         2010         2011         2010         R'000         R'000	2011         2010         2011         2010         2011         2010         2011         2010         2011         2010         2011         R'000         R'000	2011         2010         2010         2011         2010         2011         2010         2011         2010         2011         2010         2011         2010         2011         2010         2011         2010         2011         2010         2011         2011         2010         2011 <th< td=""><td>2011         2010         2011         <th< td=""></th<></td></th<>	2011         2010         2011         2011 <th< td=""></th<>

2011 2011 Total revenue 1 162 814

DIRECTORS: DM Thompson\* (Chairman), B Krone (CEO), W van Houten (CFO), EG Dube\*, MB Mathabathe\*, Dr FA Sonn\* \*Independent non-executive REGISTERED OFFICE: 30 Activia Road, Activia Park, Germiston, 1401, (PO Box 6478, Dunswart, 1508) Telephone: +27 11 822 3906 Fax: +27 11 822 3112 SPONSOR: Vunani Corporate Finance, Vunani House, Athol Ridge Office Park, 151 Katherine Street, Sandton, 2196, (PO Box 652419, Benmore, 2010)

TRANSFER SECRETARIES: Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, (PO Box 61051, Marshalltown, 2107) COMPANY SECRETARY: iThemba Governance and Statutory Solutions (Pty) Limited, Monument Office Park, Suite 5 – 102, 79 Steenbok Avenue, Monument Park, (PO Box 25160, Monument Park, 0105) AUDITORS: KPMG Inc., KPMG Crescent, 85 Empire Road, Parktown, 2193, (Private Bag 9, Parkview, 2122)