

ESORFRANKI LETS GO OF GEOTECHNICAL BUSINESS

JSE civils and construction group, Esorfranki, today announced the disposal of Esorfranki Geotechnical to international ground engineering specialist, Keller Group plc ("Keller") for R500 million. While the geotechnical business was the core founding business of the group, more than half of the business today comprises *Esorfranki Civils* and *Esorfranki Pipelines*.

CEO Bernie Krone explains that *Geotechnical* was battling stiff local competition and limited demand, which triggered margin squeeze and relative flat revenue growth. "While prospects in Africa have been more upbeat for the division, Keller's imminent entry into the African market would have made its mark."

"For our shareholders a proposed 38 cents special dividend should sweeten the deal," says Krone. In addition the cash injection will allow the group to strengthen its financial position settling debts and creating working capital which will be employed to bolster the remaining businesses. "A further potential R150 million additional consideration may be paid by Keller, contingent on the businesses performance over the next three years."

Comparative pro forma data provided to illustrate the effects of the transaction show basic and diluted earnings per share should increase 30,7% from 23,5 cents and net asset value per share to increase 6,3% from 280,3 cents to 298,0 cents.

Of the businesses remaining in the group Krone points out that *Esorfranki Civils* has been successfully right-sized and become entrenched as a significant competitor in its market, offering a versatile and diverse civil engineering capacity. For the year ended February 2013 the division achieved revenue in excess of R1 billion and tripled profit to R76,5 million from R25,4 million in the previous year. "*Civils* still operates in an intensely competitive environment with the secured order book in line with the previous year, on the back of long-term projects in power, mining and road building sectors as well as in private infrastructure developments. Tight margins remain the order of the day," says Krone.

Further *Civils* has an intent to broaden its footprint beyond the South African borders starting in Botswana and Mozambique and has made pleasing inroads into the development housing market.

The *Esorfranki Pipelines* division is also well positioned for growth with a strong order book and plans to expand into Africa, particularly in Zambia and Zimbabwe. Early indications are that after a number of years of below anticipated revenue and margins this division is well placed to deliver improved margins as a result of increased revenue and improved trading conditions.

Esorfranki's newly established fledgling Developments division has secured significant long-term visibility through its Orchards, Diepsloot East, Soshanguve and Uitvlugt projects. The value of these projects is in excess of R4 billion.

Krone is confident the group is on track to grow to its previous scale. “With a strong foundation for growth cemented by recent rationalisation and substantial investment in plant combined with the strengthened financial position we are well positioned to take the remaining businesses to new heights.”

In terms of the agreement, Esorfranki will revert to its original listed name of Esor Limited. Interim results for the six months ended 31 August will be released on 28 November.

Ends.

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