esorfranki LIMITED

REVIEWED CONDENSED CONSOLIDATED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2012

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

COMMENTARY

Esorfranki's reviewed condensed consolidated interim results for the six months ended 31 August 2012 ("the period") reflect the group's continuing turnaround and the resumption of sustainable profitability. Effective rationalisation and optimisation processes in all divisions are further strengthening profitability. The group's continued growth is affirmed by our order book, standing at R2,43 billion at the end of the period.

Strategy to improve the group's BEE rating progressed well during the period, particularly in terms of ownership, with the announcement that Esorfranki is in negotiations with a BEE investment consortium to acquire a stake in the group.

In addition, the High Yield Bond Programme was successfully concluded in August 2012 raising funds of R202,5 million. These will be used primarily to settle existing credit lines and free facilities to support future growth. The group has secured adequate facilities to support the working capital requirements commensurate with increased activity levels and expansion in the property development market.

During the period, the group assumed control of the Esor Broad Based Share Ownership Scheme, following a change in trustees in March 2012. Accordingly the 13,3 million treasury shares have been consolidated into the group.

Financial results

Revenue increased 33% to R1,14 billion from R857,5 million in the comparative period. Earnings before interest, depreciation, impairments, amortisation and taxation ("EBITDA") was up 437% to R136,4 million from R25,4 million. HEPS increased 300% to 7,8 cents per share from a headline loss per share of 3,9 cents in the comparative period. Net asset value per share ("NAV") increased 16,4% to 267,9 cents from 230,1 cents. The order book was up 35% to R2,43 billion from R1,8 billion at 31 August 2012. An impairment of R8,5 million was recognised on the property in Midrand as a result of the group's changed strategy regarding divisionalisation with respect to office and yard requirements.

Review of operations

Although the construction sector in South Africa remains tough, Esorfranki has managed to sustain the turnaround started in the latter half of FY2012, putting the group firmly on track for growth with good prospects going forward.

Esorfranki Civils' revenue increased 69% to R598 million from R354 million. Profit before tax increased by 210% to R28,7 million compared to a loss of R25,9 million in the comparative period. The division maintained the profitability achieved in the second half of FY2012. The order book grew by 101% to R1,80 billion from R984 million. Operating margins increased considerably over the previous period.

The R21 road contract, which recorded a loss at the end of the previous year, achieved a pleasing turnaround to a near break-even position. Work on the R271 million Bestwood housing and infrastructure contract near Kathu in the Northern Cape is progressing well and attaining reasonable margins. An additional housing and property development contract – the R340 million Orchards development in Rosslyn near Pretoria – also commenced. This project required the acquisition of a new subsidiary in July 2012. The acquisition resulted in the inclusion of inventory totalling R33,1 million, which comprised land for development and development costs already incurred at acquisition date.

Although work in the mining sector is available, a slight slowdown is fuelling a more competitive market with eroding margins. The company secured additional contracts at Kusile Power Station including two earthworks contracts encompassing the formation of terraces and the crushing of stockpiled materials. The N4 contract at Mooinooi for Bakwena Concessions is progressing well.

Esorfranki Pipelines' revenue was up 32% to R149 million from R113 million which, coupled with an order book of R314 million at period-end, more than compensates for the cancelled Western Aqueduct contract. The KZN region provided a number of new contracts including Umlaas Road for Umgeni Water and The Bluff Military Base and the Richmond Road Off-take in Woodmead. In the Free State, a new contract was awarded for the Ezenzeleni Water Treatments Works in Warden.

The BG 3 dispute remains unresolved and is in the process of arbitration. Resolution is expected early in 2013.

Esorfranki Geotechnical's revenue grew marginally by 1,2% to R410 million from R405 million, reflecting continued difficult trading conditions. Profit before tax increased by 159% to R39,3 million from R15,2 million. This included a profit of R24,4 million on the sale of property in Pinetown for R30,5 million following the consolidation of the two offices in Durban. Off-shore revenue increased 26% to R179,4 million from R142,9 million, translating into an increase in offshore profit before tax of 19,7% to R22,5 million from R18,8 million. In South Africa, stiff competition and limited demand are constraining margins which are currently lower than historical averages.

The division continues to focus on expansion in high-growth Ghana and has demonstrated pleasing progress with a fifth contract awarded. The Ada Groynes contract is moving quickly following the completion of all temporary and establishment works.

Safety

Esorfranki Civils recently won an award for its safety record at the Kusile Power Station for achieving 1 million injury free hours. The group's Lost Time Injury Frequency Ratio (LTIFR) of 0,74 at period-end is significantly better than the industry norm of 1,33.

CAPEX

During the period, the group invested R126 million in property, plant and equipment compared to R152 million in the comparative period. The majority of CAPEX requirements are applied in Esorfranki Civils. The CAPEX spend for the period was supported by the successful listing of the High Yield Bond Programme.

Black Economic Empowerment

Esorfranki is currently a 'Level 4' contributor in terms of the Department of Trade and Industry's B-BBEE Codes of Good Practice, a critical differentiator in an environment dependent on Government infrastructure spend. The group remains focused on continually reviewing and enhancing all areas of scorecarding and will look to improve the rating in the medium term. To this end, specific training is being implemented to ensure that all B-BBEE spend is correctly allocated with respect to skills development, procurement, enterprise development and socio-economic development.

In terms of ownership, should the BEE transaction currently in negotiation advance, Esorfranki would considerably exceed industry Charter requirements. Details will be announced in due course.

Incorporating retail shareholders on the open market, current direct black ownership totals 18,3% (2011: 29,64%). Included in this is the 3,3% stake in the company held by black staff through the Esor Broad Based Share Ownership Scheme.

More than 80% of the group's 3 799 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 (Proprietary) Limited prior to listing. Esorfranki has co-operated fully with the Competition Commission. The investigation is ongoing and no updates have occurred since the announcement at the previous year-end.

Directorate

Post period-end CFO Wayne van Houten resigned effective 1 October 2012. The board thanks him for his contribution to the group. Wessel van Zyl, CA(SA) was appointed as CFO effective 8 October 2012.

Events after the reporting date

There were no significant events after the reporting date.

Prospects

Esorfranki has started to benefit from the tentative recovery in the South African economy. The promised government infrastructure spend did not progress as anticipated during the period and a full economic recovery is expected only in the medium term.

Esorfranki Civils is expected to further capitalise on opportunities in housing, with affordable housing projects planned in the Vaal Triangle and Thabazimbi and a low-cost house development in Johannesburg. Despite the slowdown in the mining sector, opportunities remain in the coal mining sector from which Esorfranki anticipates benefiting.

Esorfranki Pipelines started the second half of the year securing a significant R250 million contract in Stanger. In addition the Rand Water Augmentation continues and there are good prospects in KZN and Gauteng. The sector remains challenged by the slow delivery of pipes from suppliers. This is expected to be alleviated in the second half of the current year to boost production. Further promising prospects exist with potential reticulation in the SADC region.

Esorfranki Geotechnical's prospects in Sub-Saharan Africa are varied, but promising. The Mauritian market is currently flat and is likely to remain so for the next reporting period, but in the medium term PPP projects around Port Louis offer attractive opportunities. Mozambique is looking positive with a number of large projects to be awarded in the coal mining sector. Although the Angolan market has become more competitive with the entry of international construction companies, the division is confident of further contract awards. Despite some challenges, the group expects to achieve targets in all regions this year.

Dividend policy

In line with group policy no interim dividend has been declared. It remains the policy of the group to review the dividend policy annually in light of cash flow, gearing, capital requirements and bank covenants.

Statement of compliance

The reviewed condensed consolidated interim financial statements for the period 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 condensed consolidated interim financial statements are consistent with those applied in the group's annual financial statements for the year ended 29 February 2012, which comply with International Financial Reporting Standards ("IFRS").

Auditor's independent review

These condensed consolidated financial results for the period have been reviewed by the company's auditors, KPMG Inc., in terms of International Standards on Review Engagements 2410. The scope of the review was to enable the auditors to report that nothing had come to their attention that caused them to believe that the accompanying condensed consolidated interim financial statements are not presented, in all material respects, in accordance with IAS 34 – Interim Financial Reporting and the South African Companies Act. Their unmodified review report on the condensed consolidated interim financial statements is available for inspection at the registered office of the company.

Appreciation

We thank our management teams and employees for their persistence and loyalty in a trying period and challenging environment. Our appreciation also extends to our customers, suppliers, advisors and stakeholders for their continued support.

On behalf of the board.

Bernard Krone
Chief Executive Officer

Dave Thompson
Chairman

25 October 2012

HIGHLIGHTS

REVENUE UP 33,3%

HEPS UP 300%

ORDER BOOK R2,4 BILLION

SHORT-TERM PROSPECTS R4,8 BILLION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended Reviewed 31 August 2012 R'000	Reviewed 31 August 2011 R'000	Change %	Year ended Audited 29 February 2012 R'000
Revenue	**1 142 776**	857 524	33,3	1 771 692
Cost of sales	**(992 177)**	(777 629)	27,6	(1 549 955)
Gross profit	**150 599**	79 895	88,5	221 737
Other income	**25 072**	1 058	2 269,8	1 705
Operating expenses	**(39 266)**	(55 546)	29,3	(90 786)
Profit before interest, tax, amortisation, impairments and depreciation	**136 405**	25 407	436,9	132 656
Depreciation, impairments and amortisation	**(57 730)**	(39 822)	(45,0)	(79 510)
Results from operating activities	**78 675**	(14 415)	645,8	53 146
Finance costs	**(16 868)**	(12 073)	(39,7)	(73 233)
Finance income	**1 654**	2 614	(36,7)	49 726
Profit/(loss) before tax	**63 461**	(23 874)	365,8	29 639
Taxation	**(16 125)**	5 197	410,3	(11 423)
Profit/(loss) after tax	**47 336**	(18 677)	353,4	18 216
Other comprehensive income:				
Foreign currency translation differences for foreign operations	**18 268**	6 864	166,1	13 655
Actuarial gain on post retirement benefit	**–**	–	–	(73)
Income tax on other comprehensive income	**(2 119)**	(546)	(288,1)	(1 862)
Other comprehensive income for the period, net of tax	**16 149**	6 318	(155,6)	11 720
Total comprehensive income attributable to:				
Owners of the company	**63 485**	(12 359)	613,7	29 936
Basic earnings/(loss) per share (cents)	**12,6**	(4,8)	362,5	4,7
Diluted earnings/(loss) per share (cents)	**12,6**	(4,8)	362,5	4,7
Reconciliation of headline earnings/(loss)				
Profit/(loss) attributable to ordinary shareholders	**47 336**	(18 677)	353,4	18 216
Adjusted for:				
Profit/(loss) on disposal of property, plant and equipment	**(23 437)**	3 630	(745,6)	5 830
Profit on acquisition of subsidiary	**(801)**	–	–	–
Impairment of property, plant and equipment	**6 113**	–	–	–
Headline earnings/(loss) attributable to ordinary shareholders	**29 211**	(15 047)	(294,1)	24 046
Number of ordinary shares in issue ('000)	**395 185**	395 185		395 185
Diluted weighted average	**374 787**	387 980		386 731
Weighted average	**374 787**	387 812		386 731
Headline earnings/(loss) per share (cents)	**7,8**	(3,9)	300,0	6,2

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Reviewed 31 August 2012 R'000	Reviewed 31 August 2011 R'000	Audited 29 February 2012 R'000
ASSETS			
Non-current assets	**1 230 999**	1 085 923	1 151 181
Property, plant and equipment	**807 095**	678 242	737 312
Intangible assets	**87 281**	89 170	88 226
Goodwill	**320 507**	305 715	305 715
Financial asset	**449**	7 829	1 291
Deferred tax asset	**15 667**	4 967	18 637
Current assets	**960 341**	626 951	665 288
Inventories	**56 144**	14 933	20 622
Non-current assets held for sale	**2 139**	–	3 293
Other investments	**29 092**	1 593	–
Taxation	**14 697**	4 218	15 617
Trade and other receivables	**640 139**	556 663	529 103
Cash and cash equivalents	**218 130**	49 544	96 653
Total assets	**2 191 340**	1 712 874	1 816 469
EQUITY AND LIABILITIES			
Share capital and reserves	**1 003 921**	893 375	937 432
Share capital and premium	**570 162**	589 700	592 045
Equity compensation reserve	**17 655**	16 225	16 188
Foreign currency translation reserve	**(3 127)**	(26 324)	(21 395)
Retained earnings	**419 231**	313 774	350 594
Non-current liabilities	**535 757**	298 564	316 658
Secured borrowings*	**384 493**	195 040	179 911
Post-retirement benefits	**1 806**	1 657	1 806
Deferred tax liabilities	**149 458**	101 867	134 941
Current liabilities	**651 662**	520 935	562 379
Current portion of secured borrowings*	**102 353**	77 907	105 923
Taxation	**12 119**	18 529	15 872
Provisions	**34 401**	23 882	16 350
Bank overdraft*	**–**	48 410	3 047
Trade and other payables	**502 789**	352 207	421 187
Total equity and liabilities	**2 191 340**	1 712 874	1 816 469
Net asset value per share (cents)	**267,9**	230,1	241,5
Tangible net asset value per share (cents)**	**189,5**	156,9	168,5

* Interest-bearing debt
** (Net asset value less intangible assets net of deferred tax)/weighted average shares.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended Reviewed 31 August 2012 R'000	Reviewed 31 August 2011 R'000	Year ended Audited 29 February 2012 R'000
Cash flows from operating activities			
Profit/(loss) before taxation	**63 461**	(23 874)	29 639
Adjustments for:			
Depreciation of property, plant and equipment	**48 294**	38 875	77 619
Impairment of land and buildings	**8 491**	–	–
Amortisation of intangible assets	**945**	947	1 891
Amortisation of financial asset	**1 670**	979	2 463
Profit on disposal of property, plant and equipment	**(28 124)**	(62)	(585)
Loss on disposal of property, plant and equipment	**–**	5 104	8 682
Foreign currency translation reserve adjustment	**7 095**	2 879	2 217
Equity settled share-based payment transactions	**1 467**	1 781	1 744
Fair value adjustment of derivative instruments	**1 699**	–	–
Gain on bargain purchase of subsidiary	**(1 113)**	–	–
Interest expense	**–**	–	143
Income tax (paid)/refund	**(6 585)**	5 314	(7 891)
	97 300	31 943	115 922
Change in inventories	**(27 581)**	2 050	(3 639)
Change in trade and other receivables	**(112 983)**	(151 703)	(111 462)
Change in trade and other payables	**81 369**	41 267	110 247
Change in provisions	**6 923**	20 669	13 137
Net cash generated/(used) from operations	**45 028**	(55 774)	124 205
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**44 992**	130	8 872
Acquisition of business, net of cash	**(10 840)**	–	–
Acquisition of property, plant and equipment	**(125 994)**	(152 342)	(257 722)
Acquisition of other investments	**(29 092)**	(1 173)	(7 207)
Net cash used in investing activities	**(120 934)**	(153 385)	(256 057)
Cash flows from financing activities			
Proceeds from the issue of share capital, net of expenses	**(582)**	200 251	202 596
Increase/(decrease) in secured borrowings	**201 012**	(53 096)	(40 209)
Post-retirement benefits paid	**–**	–	(67)
Net cash generated in financing activities	**200 430**	147 155	162 320
Net increase/(decrease) in cash and cash equivalents	**124 524**	(62 004)	30 468
Cash and cash equivalents at beginning of period	**93 606**	63 138	63 138
Cash and cash equivalents at end of period	**218 130**	1 134	93 606

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Share capital	Share premium	Equity compensation reserve	Translation reserve	Retained earnings	**Total equity**
Balance at 1 March 2011	294	389 155	14 444	(33 188)	332 451	**703 156**
Loss for the period	–	–	–	–	(18 677)	**(18 677)**
Other comprehensive income						
Foreign currency translation differences for foreign operations	–	–	–	6 864	–	**6 864**
Total other comprehensive income	–	–	–	6 864	–	**6 864**
Total comprehensive income/(loss) for the period	–	–	–	6 864	(18 677)	**(11 813)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share issues	93	199 907	–	–	–	**200 000**
Share-based payment transactions	–	–	1 781	–	–	**1 781**
Share options exercised	8	243	–	–	–	**251**
Total contributions by and distributions to owners	101	200 150	1 781	–	–	**202 032**
Balance at 31 August 2011	395	589 305	16 225	(26 324)	313 774	**893 375**
Balance at 1 March 2012	388	591 657	16 188	(21 395)	350 594	**937 432**
Profit for the period	–	–	–	–	47 336	**47 336**
Other comprehensive income						
Foreign currency translation differences for foreign operations	–	–	–	18 268	–	**18 268**
Total other comprehensive income	–	–	–	18 268	–	**18 268**
Total comprehensive income for the period	–	–	–	18 268	47 336	**65 604**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share issues	–	(582)	–	–	–	**(582)**
Share-based payment transactions	–	–	1 467	–	–	**1 467**
Acquisition of trust treasury shares	(13)	(21 287)	–	–	21 300	**–**
Total contributions by and distributions to owners	(13)	(21 869)	1 467	–	21 300	**885**
Balance at 31 August 2012	375	569 788	17 655	(3 127)	419 230	**1 003 921**

Information about reportable segments for the six months ended 31 August/twelve months ended 29 February

	Esorfranki Geotechnical			Esorfranki Civils			Esorfranki Pipelines			Corporate and Eliminations			Consolidated		
R'000	**August 2012**	August 2011	February 2012	**August 2012**	August 2011	February 2012	**August 2012**	August 2011	February 2012	**August 2012**	August 2011	February 2012	**August 2012**	August 2011	February 2012
External revenues	**410 327**	405 611	734 092	**598 765**	354 366	824 051	**149 163**	113 320	227 821	**(15 479)**	(15 773)	(14 272)	**1 142 776**	857 524	1 771 692
Reportable segment profit/(loss) before income tax	**39 246**	15 211	42 620	**28 670**	(25 958)	(2 564)	**10 418**	637	(4 767)	**(14 873)**	(13 764)	(28 526)	**63 461**	(23 874)	6 763
Reportable segment assets	**726 991**	674 136	722 746	**795 274**	718 654	583 537	**125 166**	115 445	84 007	**543 909**	204 635	426 179	**2 191 340**	1 712 874	1 816 469

Geographical information

	South Africa			Other Regions			Consolidated		
R'000	**August 2012**	August 2011	February 2012	**August 2012**	August 2011	February 2012	**August 2012**	August 2011	February 2012
Total revenue	**963 374**	714 633	1 497 994	**179 402**	142 891	273 698	**1 142 776**	857 524	1 771 692
Profit/(loss) before interest and tax	**48 241**	(33 219)	439	**30 434**	18 804	46 711	**78 675**	(14 415)	47 150
Total assets	**1 895 389**	1 300 919	1 568 821	**295 951**	411 955	247 648	**2 191 340**	1 712 874	1 816 469

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