esorfranki LIMITED

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")

REVIEWED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2011

COMMENTARY

The directors present the reviewed condensed consolidated interim results for the six months ended 31 August 2011 ("the period"), reflecting the adverse impact on the group of a still depressed construction sector. Key performance indicators accordingly declined year-on-year.

Positively a number of the problem contracts plaguing the group were concluded during the first quarter of the period, with the overall contract base now showing improved profitability.

The group structure has been successfully streamlined with the divisionalisation of operations and their amalgamation into a single operating company effective 1 March 2011. All group businesses are now housed under the re-branded company Esorfranki Construction (Pty) Limited and cost and efficiency savings are starting to be realised.

Esorfranki's order book remains solid (even excluding certain contract awards currently being contested), having been significantly bolstered during the period. The secured outstanding order book stands in excess of R1,5 billion at the date of this announcement. Imminently pending awards total approximately R2,3 billion.

Financial results

Revenue grew 14,2% to R857,5 million from R750,8 million in the comparative period. Earnings before interest, depreciation, impairments, amortisation and taxation ("EBITDA") declined 66,2% from R75,2 million to R25,4 million. Headline earnings per share ("HEPS") reduced 195,1% to a headline loss per share of 3,9 cents per share. Net asset value per share ("NAV") fell 11,0% to 230,1 cents from 258,4 cents.

Review of operations

During the period the construction market waned further and already fierce competition intensified. Work tendered for in previous periods at reduced margins, as a consequence of the harsh trading conditions, is now being executed. Strict cost controls and effective risk management practices are in place throughout the group to contain the effect on profits.

The expansion of the group's market share in sub-Saharan Africa continued strongly with a number of new contracts secured.

Investment in working capital has increased significantly as a consequence of new contract awards and the outflow on loss-making contracts. Management has assessed all contract cost estimates and has made adequate provisions for any future excess contract costs.

Impacted by tough market conditions most of the group's divisions posted weaker results compared to the comparative period.

Esorfranki Geotechnical:
Revenue of R405,6 million was down 4,2% (Aug 2010: R423,2 million) and accounted for 47% of group revenue. Profit before tax ("PBT") grew from R12,0 million to R15,2 million. Recent project awards include work at Kalagadi Phase II for R40,7 million, 114 West Street and other work in Sandton totalling R85 million. R20 million worth of piling work remains at Kusile. In the Western Cape projects include a R15 million contract at the V&A Clocktower, R37 million for Langeni Road Rehabilitation and R8,3 million for the Portside basement. The announcement of the preferred bidder for the N1/N2 tollway presents opportunity for further geotechnical work. In KwaZulu-Natal recent awards include R5,7 million for stone columns at Bridge City, R9,5 million for diaphragm walls at Island View and R4,7 million geotechnical work at St Elizabeth's Hospital. Outside South Africa, the Angolan market remains depressed. The Kinaxixi project is nearing completion, with the possibility of additional geotechnical work on this project. Other projects underway include R73 million worth of secured work in Mozambique, which has been driven by the coal mining infrastructure programmes. R37 million has been secured in Tanzania for the current year and R50 million in Mauritius with contract awards still pending in these regions (save for Mauritius). Further awards of R11 million in Ghana and a recent award in Uganda for lateral support in Kampala will enhance Esorfranki's geographical diversity.

Esorfranki Civils:
The division achieved revenue of R354,4 million (Aug 2010: R225,3 million) accounting for 40% of group revenue. It posted a loss before tax of R25,9 million (2010: PBT R20,8 million). Recent projects secured include for Roads Agency Limpopo worth R60 million, a R200 million K71/R55 road project, the R330 million Bakwena N4 contract and R311million of civil works for Kusile. Esorfranki also secured a R30 million five-storey commercial development in Rosebank.

Esorfranki Pipelines:
With revenue of R113,3 million (Aug 2010: R102,3 million) the division contributed 13% of group revenue. PBT amounted to R0,6 million (2010: R2,3 million). Ongoing contracts include the R208 million BG3 contract and the R46 million Mooihoek Phase III. As previously announced the Western Aqueduct award to the Esorfranki/Cycad Joint Venture was challenged in the Pietermaritzburg High Court with judgement made to set aside the contract award. The consideration of an appeal is currently being addressed by the client, eThekwini Municipality.

CAPEX

During the period the group invested R152,3 million in property, plant and equipment (Aug 2010: R37,3 million). The increase in CAPEX is attributable to the need to gear up for contracts awarded during the period. The majority of CAPEX requirements are applied in Esorfranki Civils.

Black Economic Empowerment

Esorfranki is currently a 'Level 4' contributor in terms of the Department of Trade & 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.

Incorporating retail shareholders on the open market, direct black ownership scored at 29,64% (2010: 29,07%). 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 3 124 (Aug 2010: 3 059) 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 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

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

Events after the reporting date

There were no significant events after the reporting date.

Prospects

Looking ahead the economy and construction sector are showing the first, slow signs of recovery, although a full recovery is expected only in the medium-term and then not to the levels of the 2008/9 boom. Esorfranki intends expanding its geographical footprint and product range through both organic and acquisitive growth to capitalise on opportunities.

With higher margins Sub-Saharan Africa continues to offer scope for growth for all business units. Current prospects include projects in Ghana, Kenya, Uganda, Togo as well as Mozambique.

Esorfranki Civils is expected to capitalise on opportunities in housing, particularly low-cost housing. Anticipated projects in the water, energy and transport sectors are shoring up prospects for the group. Esorfranki Pipelines has a positive outlook based on work for the Rand Water Augmentation Schemes, TCTA and the petroleum industry.

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 and method of measurement and recognition 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 28 February 2011, 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

Wayne van Houten
Chief Financial Officer

24 October 2011

SALIENT FEATURES

REVENUE	14,2%	▲
ORDER BOOK	R1,5 billion from R1 billion	▲
HEPS	195%	▼
SHORT TERM PROSPECTS	R2,3 billion	▲

Condensed consolidated statement of financial position

	Reviewed 31 August 2011 R'000	Reviewed 31 August 2010 R'000	Audited 28 February 2011 R'000
ASSETS			
Non-current assets	**1 085 923**	986 302	966 187
Property, plant and equipment	**678 242**	586 833	565 775
Intangible assets	**89 170**	91 057	90 117
Goodwill	**305 715**	305 715	305 715
Financial asset	**7 829**	-	-
Deferred tax asset	**4 967**	2 697	4 580
Current assets	**626 951**	622 468	498 164
Inventories	**14 933**	10 989	16 983
Other investments	**1 593**	8 846	420
Financial asset	**5 872**	-	-
Taxation	**4 218**	-	3 855
Trade and other receivables	**550 791**	514 623	413 768
Cash and cash equivalents	**49 544**	88 010	63 138
Total assets	**1 712 874**	1 608 770	1 464 351
EQUITY AND LIABILITIES			
Share capital and reserves	**893 375**	758 829	703 156
Share capital and premium	**589 700**	396 958	389 449
Equity compensation reserve	**16 225**	10 687	14 444
Foreign currency translation reserve	**(26 324)**	(34 630)	(33 188)
Retained earnings	**313 774**	385 814	332 451
Non-current liabilities	**298 564**	376 813	195 562
Secured borrowings*	**195 040**	255 638	84 516
Post-retirement benefits	**1 657**	1 665	1 657
Deferred tax liabilities	**101 867**	119 510	109 389
Current liabilities	**520 935**	473 128	565 633
Current portion of secured borrowings*	**77 907**	136 437	241 527
Taxation	**18 529**	17 027	9 953
Provisions	**23 882**	14 510	3 213
Bank overdraft*	**48 410**	-	-
Trade and other payables	**352 207**	305 154	310 940
Total equity and liabilities	**1 712 874**	1 608 770	1 464 351
Net asset value per share (cents)	**230,1**	258,4	238,9
Tangible net asset value per share (cents)**	**156,9**	161,1	142,1

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

Condensed consolidated statement of comprehensive income

	6 months ended Reviewed 31 August 2011 R'000	Reviewed 31 August 2010 R'000	Change %	Year ended Audited 28 February 2011 R'000
Revenue	**857 524**	750 798	14,2	1 366 433
Cost of sales	**(777 629)**	(603 294)	28,9	(1 204 988)
Gross profit	**79 895**	147 504	(45,8)	161 445
Other income	**1 058**	2 969	(64,3)	3 654
Operating expenses	**(55 546)**	(75 302)	(26,2)	(116 033)
Profit before interest, tax, amortisation, impairments and depreciation	**25 407**	75 171	(66,2)	49 066
Depreciation, impairments and amortisation	**(39 822)**	(37 158)	7,2	(65 489)
Results from operating activities	**(14 415)**	38 013	(137,9)	(16 423)
Finance costs	**(12 073)**	(17 184)	(29,7)	(54 371)
Finance income	**2 614**	3 079	(15,1)	23 703
(Loss) / profit before tax	**(23 874)**	23 908	(199,9)	(47 091)
Taxation	**5 197**	(11 597)	(144,8)	6 330
(Loss) / profit after tax	**(18 677)**	12 311	(251,7)	(40 761)
Other comprehensive income:				
Foreign currency translation differences for foreign operations	**6 864**	(22 553)	130,4	(21 334)
Actuarial gain on post retirement benefit	-	-	-	(261)
Income tax on other comprehensive income	**(546)**	2 219	(124,7)	2 441
Other comprehensive income / (loss) for the period, net of tax	**6 318**	(20 334)	131,1	(19 154)
Total comprehensive loss for the period	**(12 359)**	(8 023)	(54,0)	(59 915)
(Loss)/profit attributable to:				
Owners of the company	**(18 677)**	12 311	(251,7)	(40 761)
Total comprehensive income/(loss) attributable to:				
Owners of the company	**(12 359)**	(8 023)	131,1	(19 154)
Basic (loss)/ earnings per share (cents)	**(4,8)**	4,2	(214,3)	(13,9)
Diluted (loss)/ earnings per share (cents)	**(4,8)**	4,2	(214,3)	(13,8)
Reconciliation of headline (loss) / earnings				
(Loss) / profit attributable to ordinary shareholders	**(18 677)**	12 311	(251,7)	(40 761)
Adjusted for:				
Loss on disposal of property, plant and equipment	**3 630**	918		4 609
Derecognition of minority interests in subsidiary	**-**	(3 605)		(3 654)
Impairment of property, plant and equipment	**-**	1 200		-
Impairment of intangible assets	**-**	1 182		2 032
Headline (loss) / earnings attributable to ordinary shareholders	**(15 047)**	12 006	(225,3)	(37 774)
Number of ordinary shares in issue ('000)	**395 185**	302 162		302 162
diluted weighted average	**387 980**	295 628		294 554
weighted average	**387 812**	293 403		293 763
Headline (loss)/ earnings per share (cents)	**(3,9)**	4,1	(195,1)	(12,9)

Condensed consolidated statement of cash flows

	6 months ended Reviewed 31 August 2011 R'000	Reviewed 31 August 2010 R'000	Year ended Audited 28 February 2011 R'000
Cash flows from operating activities			
(Loss) / profit before taxation	**(23 874)**	23 908	(47 091)
Adjustments for:			
Depreciation of property, plant and equipment	**38 875**	33 278	60 669
Impairment of intangible assets	-	1 624	1 624
Impairment of building	-	1 200	1 200
Amortisation of intangible assets	**947**	1 056	1 996
Amortisation of financial asset	**979**	-	-
Profit on disposal of property, plant and equipment	**(62)**	-	(121)
Loss on disposal of property, plant and equipment	**5 104**	1 275	6 523
Foreign currency translation reserve adjustment	**2 879**	(14 806)	(14 606)
Equity settled share-based payment transactions	**1 781**	2 434	6 191
Disposal of subsidiary	**-**	-	(3 654)
Interest expense	**-**	-	147
Income tax refund/(paid)	**5 314**	5 702	(837)
	31 943	55 671	12 041
Change in inventories	**2 050**	3 838	(2 156)
Change in trade and other receivables	**(137 023)**	(14 754)	86 086
Change in trade and other payables	**41 267**	20 477	23 620
Acquisition of financial asset	**(14 680)**	-	-
Change in provisions	**20 669**	(6 577)	(17 874)
Net cash (used)/ generated from operations	**(55 774)**	58 655	101 717
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**130**	125	3 032
Acquisition of business	**-**	-	(980)
Acquisition of property, plant and equipment	**(152 342)**	(37 306)	(50 373)
(Acquisition) / disposal of other investments	**(1 173)**	(2 084)	6 342
Net cash used in investing activities	**(153 385)**	(39 265)	(41 979)
Cash flows from financing activities			
Proceeds from the issue of share capital	**200 251**	2	1 261
Decrease in secured borrowings	**(53 096)**	(4 633)	(70 665)
Post-retirement benefits paid	**-**	-	(417)
Dividends paid	**-**	(43 612)	(43 642)
Net cash generated/ (used) in financing activities	**147 155**	(48 243)	(113 463)
Net decrease in cash and cash equivalents	**(62 004)**	(28 853)	(53 725)
Cash and cash equivalents at beginning of period	**63 138**	116 863	116 863
Cash and cash equivalents at end of period	**1 134**	88 010	63 138

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 2010	292	396 664	8 253	(14 296)	417 115	808 028
Profit for the period					12 311	12 311
Other comprehensive income						
Foreign currency translation differences for foreign operations				(20 334)		(20 334)
Total other comprehensive loss	-	-	-	(20 334)	-	(20 334)
Total comprehensive income/(loss) for the period	-	-	-	(20 334)	12 311	(8 023)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders					(43 612)	(43 612)
Share-based payment transactions			2 434			2 434
Share options exercised	2					2
Total contributions by and distributions to owners	2	-	2 434	-	(43 612)	(41 176)
Balance at 31 August 2010	294	396 664	10 687	(34 630)	385 814	758 829
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**

Information about reportable segments for the six months ended 31 August / twelve months ended 28 February

R'000	Esorfranki Geotechnical August 2011	August 2010	February 2011	Esorfranki Civils August 2011	August 2010	February 2011	Esorfranki Pipelines August 2011	August 2010	February 2011	Corporate & Eliminations August 2011	August 2010	February 2011	Consolidated August 2011	August 2010	February 2011
External revenues	**405 611**	423 180	706 672	**354 366**	225 321	518 787	**113 320**	102 297	169 005	**(15 773)**	-	(28 031)	**857 524**	750 798	1 366 433
Reportable segment profit / (loss) before income tax	**15 211**	12 016	5 543	**(25 958)**	20 849	(8 231)	**637**	2 254	(266)	**(13 764)**	(11 211)	50 045	**(23 874)**	23 908	47 091
Reportable segment assets	**674 136**	713 901	662 228	**718 654**	459 909	454 761	**115 445**	103 546	87 092	**204 635**	331 414	260 270	**1 712 874**	1 608 770	1 464 351

Geographical Information R'000	South Africa August 2011	August 2010	February 2011	Other Regions August 2011	August 2010	February 2011	Consolidated August 2011	August 2010	February 2011
Total revenue	**714 633**	589 879	1 162 814	**142 891**	132 600	203 619	**857 524**	750 798	1 366 433
(Loss)/profit before interest and tax	**(33 219)**	4 215	(44 589)	**18 804**	23 022	28 166	**(14 415)**	38 013	(16 423)
(Loss)/profit after tax	**(33 096)**	(9 867)	(65 873)	**14 419**	19 352	25 112	**(18 677)**	12 311	(40 761)
Total assets	**1 300 919**	1 307 756	1 265 010	**411 955**	301 014	199 341	**1 712 874**	1 608 770	1 464 351

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