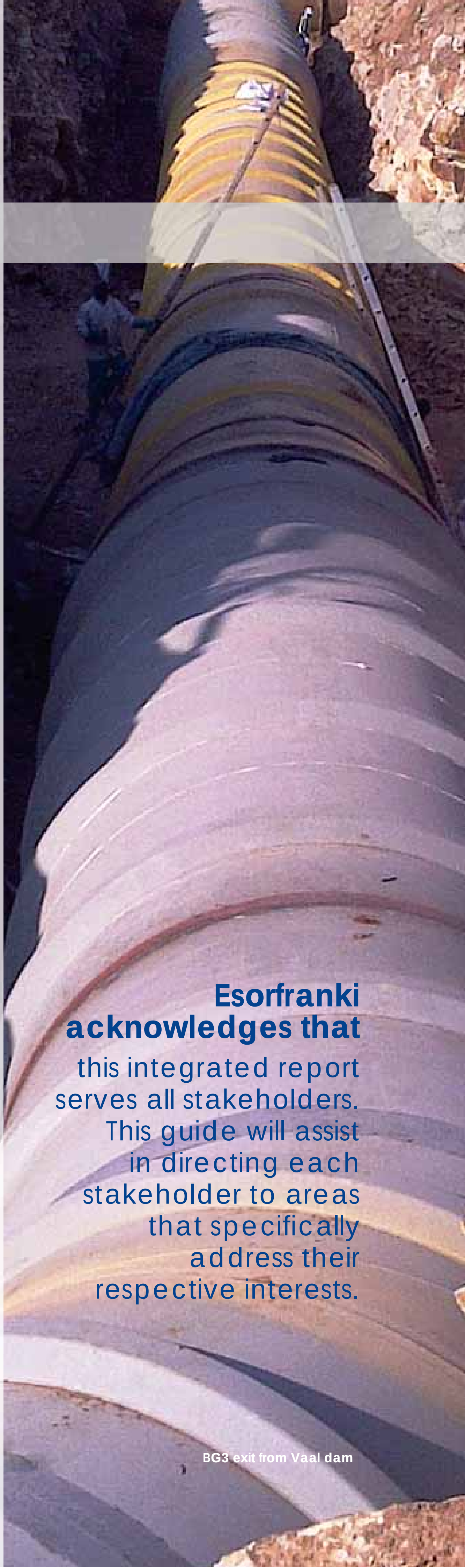
# INTEGRATED REPORT 2013

esorfranki LIMITED

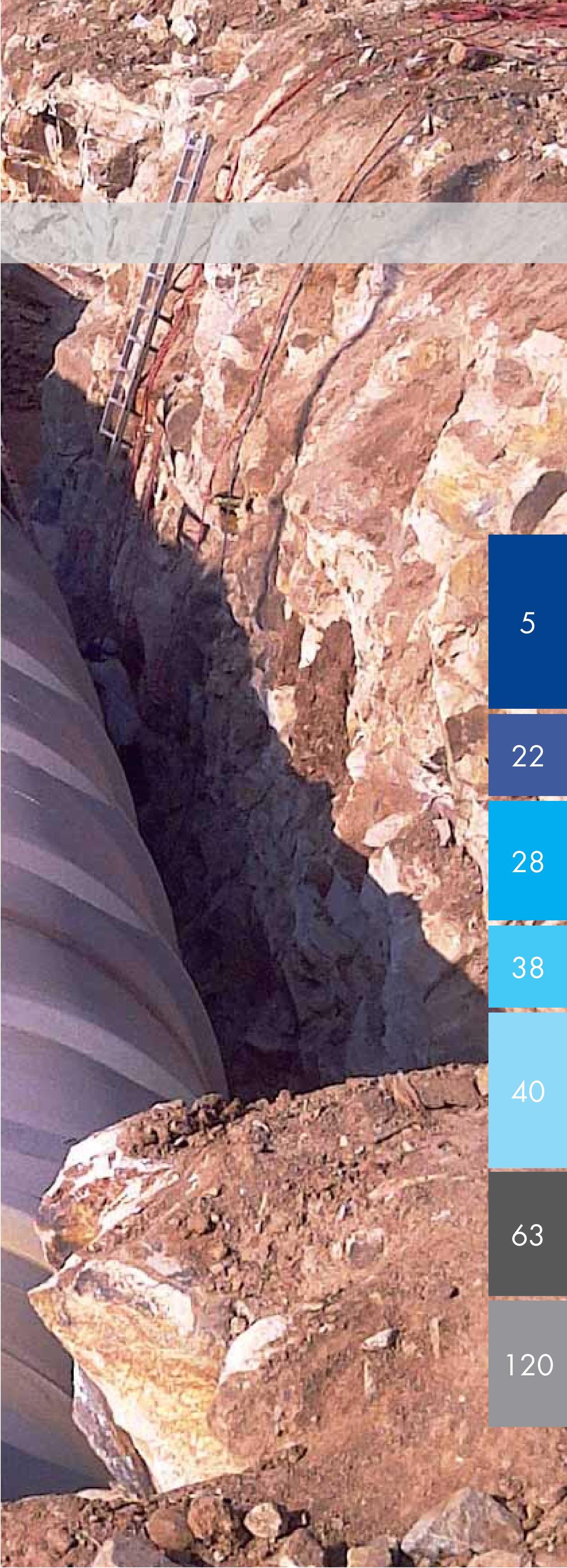
# Stakeholders' navigation guide





**Esorfranki acknowledges that** this integrated report serves all stakeholders. This guide will assist in directing each stakeholder to areas that specifically address their respective interests.

BG3 exit from Vaal dam



# Table of contents

# Definitions

| | |
|---|---|
| "BEE" | Black economic empowerment |
| "BCAWU" | Building Construction and Allied Workers Union |
| "the board" | The board of directors of Esorfranki |
| "CAPEX" | Capital expenditure |
| "CIDB" | Construction Industry Development Board |
| "CEO" | Chief Executive Officer |
| "CFO" | Chief Financial Officer |
| "CIO" | Chief Information Officer |
| "the company" or "Esorfranki" | Esorfranki Limited |
| "DWT" | Dividend Withholding Tax |
| "EIA" | Environmental Impact Assessment |
| "EMP" | Environmental Management Plan |
| "Esor Africa" | Esor Africa, now comprising the company's properties in Germiston |
| "Esorfranki Civils" | A division of operating company, Esorfranki Construction |
| "Esorfranki Construction" | Esorfranki Construction (Pty) Limited, the operating company of the group effective 1 March 2012 |
| "Esorfranki Pipelines" | A division of operating company, Esorfranki Construction |
| "Esorfranki Geotechnical" | A division of operating company, Esorfranki Construction |
| "FY" | Financial year |
| "GRI" | Global Reporting Initiative |
| "H1" | Period from 1 March – 31 August |
| "H2" | Period from 1 September – 28/29 February |
| "IFRS" | International Financial Reporting Standards |
| "IFC" | Inside Front Cover |
| "IBC" | Inside Back Cover |
| "IT" | Information Technology |
| "JSE" | JSE Limited |
| "King III Report" | King Report on Corporate Governance for South Africa 2009 |
| "KPMG" | KPMG Inc., independent auditors of the group |
| "LTIFR" | Lost Time Injury Frequency Rate |
| "NUM" | National Union of Mineworkers, to which a large number of the group's employees belong |
| "PAT" | Profit after tax |
| "the previous year" | The year ended 29 February 2012 |
| "ROI" | Return on investment |
| "SAFCEC" | South African Federation of Civil Engineering Contractors |
| "SAICE" | South African Institution of Civil Engineering |
| "SENS" | Stock Exchange News Service |
| "SHEQ" | Safety, Health, Environment and Quality |
| "STC" | Secondary tax on companies |
| "the year" or "the year under review" | The year ended 28 February 2013 |

| REVENUE | ORDER BOOK | HEPS | NAV |
|---|---|---|---|
| R2,33 BILLION | R2,5 BILLION | 20,5 CENTS | 280 CENTS PER SHARE |

# Scope and boundary of report

Esorfranki is one of South Africa's benchmark civil engineering and construction groups providing specialist geotechnical services, roads, earthworks, building and pipeline construction. The group is listed in the 'Construction & Building Materials' sector of the JSE Main Board.

This Integrated Report for 2013 presents the annual financial results and the economic, environmental, social and governance performance of the group for the year ended 28 February 2013, and follows our first integrated report published in May 2012. No change in scope was required for the Integrated Report 2013. There was no change to the boundary or any measurement techniques nor were there any restatements of previously reported information. There were two business combinations during the year with the acquisition of the Esor Broad Based Share Ownership Scheme in March 2012 and Safdev Land 1 Proprietary Limited in July 2012. For more information see the annual financial statements.

In this report Esorfranki endeavours to provide an overview of the group's commitment to ensuring that financial, social, and environmental sustainability permeates the entire business and helps shape business strategy, philosophy and practice. Reporting in this integrated annual report is in line with the recommendations of the King III Report, which highlights the need to reflect the impact of economic, social and environmental issues on business performance.

Considerable effort has been expended on presenting concise, focused information – the content of this integrated report is deemed to be useful and relevant to our stakeholders, enabling them to evaluate the ability of Esorfranki to create and sustain stakeholder value. A combined Chairman's and CEO's report is provided, offering the reader a comprehensive, high-level overview of the group's performance and outlook.

More detailed additional information is provided on the group's website: www.esorfranki.co.za

## Scope

Esorfranki is a leading civil engineering and construction group, which listed on the JSE in 2006. This Integrated Report for 2013 provides an overview of both the South African and foreign operations of the group for the financial year ended 28 February 2013. The Esorfranki group consists of Esorfranki Construction and its divisions, as well as subsidiaries in foreign territories. The report is prepared in accordance with IFRS, the JSE Listings Requirements, King III and the Companies Act, 71 of 2008.

Esorfranki has further applied and explained the application of the majority of the principles contained in the King III Report, as encapsulated in applicable regulations. Any King III principles which have not been applied are also explained, and include, wherever possible, a reference to the part of the year for which the non-compliance occurred. The group is committed to triple bottom-line reporting and therefore reports against the guidelines of the Global Reporting Initiative and the content of this report is self-declared at GRI Level C. The full GRI index is available on the website.

www.esorfranki.co.za

## Responsibility statement

The Audit Committee, and the board of directors, acknowledges their responsibility to ensure the integrity of this report. The committee has applied its mind to the report and believes that it addresses all material issues, and presents fairly the integrated performance of the group.

## Forward-looking statements

The integrated report contains forward-looking statements that, unless otherwise indicated, reflect the company's expectations as at 28 February 2013. Actual results may differ materially from the company's expectations if known and unknown risks or uncertainties affect its business, or if estimates or assumptions prove inaccurate. The company cannot guarantee that any forward-looking statement will materialise and, accordingly, readers are cautioned not to place undue reliance on these forward-looking statements. The company disclaims any intention and assumes no obligation to update or revise any forward-looking statement, even if new information becomes available as a result of future events or for any other reason.

## Navigation key

www.esorfranki.co.za

Further reading

# Scope and boundary of report (continued)

## Assurance

To ensure the integrity of sustainability reporting in the group, the following assurance has been undertaken:

| Business process | Nature of assurance | Status | Assurance provider | Integrated report disclosure |
|---|---|---|---|---|
| **Operational/financial risk** | | | | |
| Value of construction works secured (to be executed as at 28 February 2013) | Construction secured order book confirmation | Reviewed | KPMG | 22, 24, 26 |
| Extent of construction contract profitability | Contract profit or loss ratio | Reviewed | KPMG | 41 |
| Fair presentation in all material aspects – financial position and performance of the group and company | External audit report | Assured | KPMG | 69 |
| Internal audit | Quality review | Assured | KPMG | 41 |
| **Empowerment** | | | | |
| BEE | BEE scorecard | Assured | BEE Verification Agency cc | 12 |
| **Safety** | | | | |
| ISO 180001 | External audit | Assured | DEKRA Industrial Vision | 13, 57-58 |
| **Quality** | | | | |
| Quality assurance | ISO 9001 | Assured | SABS | 58 |

**Dr FA Sonn**
*Audit Committee Chairman*

**Bernie Krone**
*CEO*

**Wessel van Zyl**
*CFO*

23 May 2013

The Integrated Report 2013 is available in hard copy on request from the registered office (see IBC of this report) and is also posted on the group's website: www.esorfranki.co.za

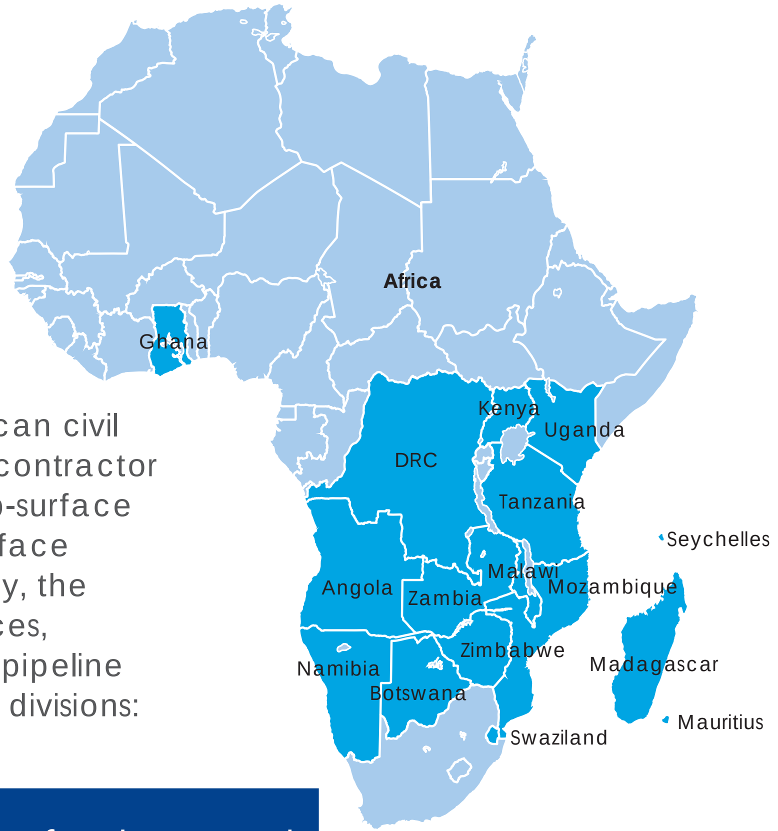
For further information, please contact the representative of the company secretary, iThemba Governance and Statutory Solutions (Pty) Limited (Corporate information on IBC).

## Key data

**Esorfranki Limited**

| | |
|---|---|
| (Registration number: | 1994/000732/06) |
| ISIN: | ZAE000133369 |
| JSE Main Board sector: | Construction & Building Materials |
| Share code: | ESR |
| Listing date: | 14 March 2006 |
| Shares in issue: | 395 185 430 |
| Business units: | Esorfranki Geotechnical<br>Esorfranki Civils<br>Esorfranki Pipelines |

# Our business



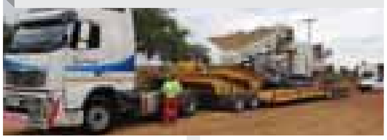

## Who we are

Esorfranki is a leading South African civil engineering and geotechnical contractor providing quality, innovative sub-surface foundation work and above-surface construction services. Specifically, the group offers geotechnical services, roads, earthworks, building and pipeline construction through three core divisions:

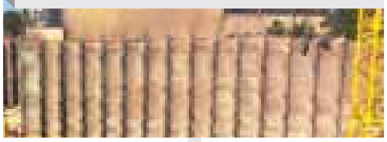
- Esorfranki Geotechnical
- Esorfranki Civils
- Esorfranki Pipelines

Esorfranki Limited

Shared Services

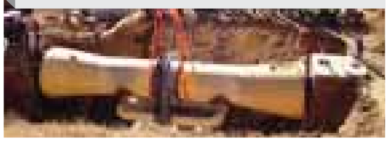


Geotechnical Division

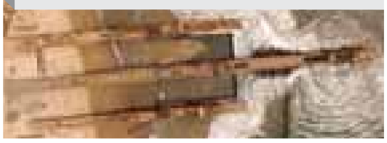


Civils Division

Pipelines Division



Africa Operations



## Our strengths

- Diversified but not divergent
- Specialist focus
- Established African footprint
- Superior operational gradings
- Level 4 B-BBEE
- Well-established businesses
- Depth in experience of longstanding management
- Cohesive group values

# Five-year review

| Consolidated statements of income | | 2013 R'000 | 2012 R'000 | 2011 R'000 | 2010 R'000 | 2009 R'000 |
|---|---|---|---|---|---|---|
| Revenue | | **2 325 958** | 1 771 692 | 1 366 433 | 1 857 817 | 1 414 722 |
| Cost of sales | | **(1 950 798)** | (1 549 955) | (1 204 988) | (1 361 041) | (981 829) |
| Gross profit | | **375 160** | 221 737 | 161 445 | 496 776 | 432 893 |
| Other operating income | | **27 239** | 1 705 | 3 654 | 3 937 | 1 631 |
| Operating expenses | | **(133 134)** | (90 786) | (116 033) | (111 661) | (108 601) |
| Profit before interest, depreciation and taxation | | **269 265** | 132 656 | 49 066 | 389 052 | 325 923 |
| Depreciation, impairments and amortisations | | **(118 271)** | (79 510) | (65 489) | (83 478) | (92 473) |
| Profit/(loss) before interest and taxation | | **150 994** | 53 146 | (16 423) | 305 574 | 233 450 |
| Finance income | | **42 369** | 49 726 | 23 703 | 63 281 | 55 600 |
| Finance costs | | **(86 684)** | (73 233) | (54 371) | (93 106) | (78 279) |
| Profit/(loss) before taxation | | **106 679** | 29 639 | (47 091) | 275 749 | 210 771 |
| Taxation | | **(18 969)** | (11 423) | 6 330 | (78 108) | (67 389) |
| Profit/(loss) for the year | | **87 710** | 18 216 | (40 761) | 197 641 | 143 382 |
| Headline earnings/(loss) reconciliation: | | | | | | |
| Profit/(loss) for the year | | **87 710** | 18 216 | (40 761) | 197 641 | 143 382 |
| Loss/(profit) on disposal of property and equipment | | **(16 988)** | 5 830 | 4 609 | 5 396 | (39) |
| Gain on disposal of subsidiary | | **–** | – | (3 654) | – | – |
| Impairment of assets | | **6 305** | – | 2 032 | – | 11 944 |
| Headline earnings/(loss) | | **77 027** | 24 046 | (37 774) | 203 037 | 155 287 |
| Earnings per share | | | | | | |
| Basic earnings/(loss) per share | (cents) | **23,5** | 4,7 | (13,9) | 69,4 | 56,9 |
| Diluted earnings/(loss) per share | (cents) | **23,5** | 4,7 | (13,8) | 68,6 | 54,1 |
| Headline earnings/(loss) per share | (cents) | **20,5** | 6,2 | (12,9) | 71,3 | 61,7 |
| Dividend per share | (cents) | **–** | – | – | 15,0 | 15,0 |

| Consolidated statements of financial position | | 2013 R'000 | 2012 R'000 | 2011 R'000 | 2010 R'000 | 2009 R'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Non-current assets** | | **1 237 461** | 1 151 181 | 966 187 | 999 551 | 987 520 |
| Property, plant and equipment | | **822 678** | 737 312 | 565 775 | 596 429 | 588 545 |
| Intangible assets | | **86 336** | 88 226 | 90 117 | 93 737 | 113 022 |
| Goodwill | | **305 715** | 305 715 | 305 715 | 305 715 | 280 173 |
| Financial assets held at fair value through profit or loss | | **3** | 1 291 | – | – | – |
| Deferred tax assets | | **22 729** | 18 637 | 4 580 | 3 670 | 5 780 |
| **Current assets** | | **1 006 320** | 665 288 | 498 164 | 648 273 | 875 972 |
| Inventories | | **69 721** | 20 622 | 16 983 | 14 827 | 11 379 |
| Non-current asset held-for-sale | | **–** | 3 293 | – | – | – |
| Other investments | | **27 726** | – | 420 | 6 762 | 14 269 |
| Taxation | | **14 513** | 15 617 | 3 855 | 9 952 | 4 699 |
| Trade and other receivables | | **826 713** | 529 103 | 413 768 | 499 869 | 572 800 |
| Cash and cash equivalents | | **67 647** | 96 653 | 63 138 | 116 863 | 272 825 |
| **Total assets** | | **2 243 781** | 1 816 469 | 1 464 351 | 1 647 824 | 1 863 492 |
| **Equity and liabilities** | | | | | | |
| Share capital and reserves | | **1 053 262** | 937 432 | 703 156 | 808 028 | 619 577 |
| Share capital and premium | | **571 300** | 592 045 | 389 449 | 396 956 | 339 078 |
| Equity compensation reserve | | **18 606** | 16 188 | 14 444 | 8 253 | 3 917 |
| Foreign currency translation reserve | | **3 850** | (21 395) | (33 188) | (14 296) | 14 651 |
| Accumulated profits | | **459 506** | 350 594 | 332 451 | 417 115 | 261 931 |
| **Non-current liabilities** | | **540 326** | 316 658 | 195 562 | 405 711 | 470 080 |
| Secured borrowings | | **368 507** | 179 911 | 84 516 | 275 031 | 370 603 |
| Preference shares | | **21 000** | – | – | – | – |
| Post-retirement benefits | | **1 913** | 1 806 | 1 657 | 1 665 | 1 587 |
| Deferred tax liabilities | | **148 906** | 134 941 | 109 389 | 129 015 | 97 890 |
| **Current liabilities** | | **650 193** | 562 379 | 565 633 | 434 085 | 773 835 |
| Current position of secured borrowings | | **79 481** | 105 923 | 241 527 | 121 677 | 147 664 |
| Taxation | | **4 508** | 15 872 | 9 953 | 6 644 | 84 358 |
| Bank overdraft | | **34 059** | 3 047 | – | – | – |
| Provisions | | **38 329** | 16 350 | 3 213 | 21 087 | 31 118 |
| Trade and other payables | | **493 816** | 421 187 | 310 940 | 284 677 | 510 695 |
| **Total equity and liabilities** | | **2 243 781** | 1 816 469 | 1 464 351 | 1 647 824 | 1 863 492 |
| Number of ordinary shares in issue | ('000) | **395 185** | 395 185 | 302 162 | 302 162 | 289 496 |
| Weighted average number of ordinary shares | ('000) | **375 289** | 386 731 | 293 763 | 284 743 | 251 780 |
| Diluted weighted average number of shares | ('000) | **375 289** | 386 731 | 293 763 | 294 555 | 288 038 |
| Net asset value per share | (cents) | **280,3** | 241,5 | 238,9 | 275,6 | 223,2 |
| Net tangible asset per share | (cents) | **205,2** | 168,5 | 142,1 | 177,5 | 121,2 |

# Performance

Highwall support Kriel block 7 - Civils.

## Highlights

### Financial

| | |
|---|---|
| Revenue | **R2,3 billion** |
| Gross profit | **R375 million** |
| Profit before interest and tax | **R151 million** |
| Capex | **R194 million** |

### Ratios

| | |
|---|---|
| Revenue increase on previous comparable period | **31,3%** |
| Gross margin | **16,1%** |
| Operating margin | **6,5%** |

### Operational

- Order book up 42,6% to R2,5 billion
- Established on-the-ground presence in Ghana and Tanzania
- Esorfranki Pipelines secured project in Swaziland
- Invested R194 million in property, plant and equipment
- ISO 18001 safety accreditation achieved
- An in-house management development programme implemented
- Esorfranki Civils currently establishing an internal accredited training centre
- Training introduced for unskilled employees on contracts of limited duration

# Our vision and values

To be the benchmark construction group in South Africa, committed to the fulfilment of all our stakeholders' aspirations.

### Core values

| | |
|---|---|
| **Unity** | **Integrity** |
| **Commitment** | **Accountability** |

# Milestones

## 2011 – 2013


**2011**

Several legal entities within the Esorfranki group amalgamated into a single, centralised company with various business units namely: Civils, Pipelines, Geotechnical and Shared Services

**2013**

Achieved R2 billion revenue

Established presence in Ghana

## 2009 – 2010

**2009**

Esor transfers to JSE Main Board

Esor renamed Esorfranki Limited

Esorfranki group revenue jumps to R1,4 billion

Esorfranki Limited rebranded

**2010**

Esorfranki achieves R1,9 billion turnover

## 2007 – 2008

**2007**

Esor achieves R1 billion turnover

**2008**

Franki acquires Geo Compaction Dynamics and expands its market share

Esor acquires the Patula and Shearwater groups, diversifying into civil engineering and pipeline construction

Esor wins 'AltX National Business Award'

## 1998 – 2006

**1998**

Management buy-out at Franki

**2002**

Shearwater group established

**2005**

Esor lists on AltX

Esor acquires Franki

## 1991 – 1997

**1994**

Esor (Pty) Limited established following restructuring of geotechnical operations and property companies

**1995**

Patula group established

## 1946 - 1990

**1946**

Franki established in South Africa

**1976**

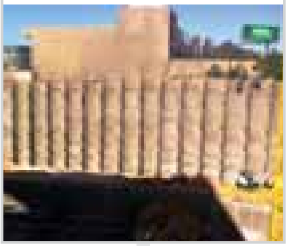
Esor Ground Engineering (Pty) Limited established in Durban

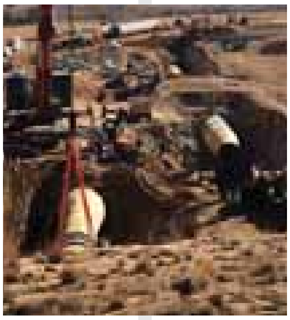
**1981**

Esor Ground Engineering (Tvl) (Pty) Limited started in the Transvaal

# How we create value

## Our business model

| Divisions | Group | Geotechnical | Civils | Pipelines |
|---|---|---|---|---|
| Business operations | Small but strong and efficient central corporate head office team | Largest specialist geotechnical contractor in South Africa and well-established in sub-Saharan Africa | Diversified range of construction services including roads, buildings, housing and mine infrastructure | Construction and rehabilitation of on-shore pipelines mainly in the sanitation, gas and petrochemical and water sectors |
| |  |  |  |  |
| Key resources | ■ Shared resources under one roof for enhanced service excellence with cross-leveraging of expertise<br>■ Efficiencies for improved profitability | ■ Depth of management know-how over decades<br>■ Plant capacity and capability – retooled and modernised equipment<br>■ Workshop facilities | ■ Comprehensive plant inventory<br>■ Over 1 100 employees ranging from artisan to management level<br>■ Experienced and talented management team | ■ Fully-equipped workshop and yard<br>■ Specialised pipeline equipment<br>■ Depth of specialised pipeline skills and experience<br>■ Experienced and newly invigorated management team |
| Competitive advantage | ■ Highly-skilled and experienced management team<br>■ Well-established business processes | ■ Market and brand leader<br>■ 100-year combined experience from Esor Limited and Franki Africa<br>■ In-house design capability<br>■ Wide product range<br>■ Well-established geographical diversity<br>■ Well-established business processes<br>■ Superior safety record | ■ Newly expanded plant capacity and capability<br>■ Strong relationships with mines, consulting engineers and clients<br>■ Superior safety record | ■ Niche leader in welded pipelines<br>■ Track record in complex projects<br>■ Excellent safety record |

| Divisions | Group | Geotechnical | Civils | Pipelines |
| --- | --- | --- | --- | --- |
| Products and services | - Finance<br>- Taxation<br>- Internal audit<br>- Risk<br>- HR<br>- Payroll<br>- Information technology | - Piling<br>- Lateral support<br>- Marine structures<br>- Diaphragm walls<br>- Ground improvement<br>- Jet grouting<br>- Environmental engineering<br>- Underpinning<br>- Geotechnical design<br>- Pipejacking<br>- Bridge and culvert jacking<br>- Underpinning<br>- Dam and compaction grouting<br>- Pile load and integrity testing | - Road building<br>- Bridge and culvert construction<br>- Township infrastructure<br>- Mining infrastructure<br>- Water reticulation<br>- Water towers and reservoirs<br>- Sewer reticulation<br>- Bulk earthworks<br>- Building, housing and developments<br>- Waste water treatment plants and oxidation ponds | - Gas and petrochemical steel pipelines<br>- Water and wastewater pipelines<br>- Sewer pipelines<br>- Pipeline refurbishments<br>- Cement mortar lining (in situ and stack-yard)<br>- Valve chambers<br>- Associated concrete structures<br>- Associated infrastructure<br>- Testing and pigging of completed pipeline sections<br>- Pump stations |
| Markets | Internal service provider | Mining, civil engineering and construction industries | Civil engineering and construction sectors<br><br>Government, major mining houses, low cost housing and the private sector | Public and private sector clients, top mining and industrial groups, regional and municipal government |
| |  |  |   |  |
| Geographical presence | Headquartered in Johannesburg, South Africa with off-shore diversification | Angola, Botswana, DRC, Ghana, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa and Tanzania | South Africa, Botswana | South Africa, Swaziland |

OUR BUSINESS

# What impacts the group

Based on the importance of balancing long-term social, economic and environmental interests with the principal need to maximise the profits of the company, some material issues were determined that will impact the company's sustainability going forward – both in terms of running the business profitably (profit) and in terms of the resources used in doing business (people, environment, plant).

## Material issues

Esorfranki has initiated an evolving process of identifying and managing the material issues which the board believes are critical to sustaining future growth. This process supports the group's commitment to integrated reporting and application of the principles of guiding frameworks such as the King III Report and the GRI.

| | Material issues | Challenge | Response |
|---|---|---|---|
| | **Growth**<br>External environment | Intensifying competition and margin contraction | ■ Expanding in the African market<br>■ Targeting higher margin private sector projects such as low cost housing<br>■ Taking equity share in developments |
| | **B-BBEE**<br>Continually strengthen Esorfranki's B-BBEE position to secure market position and growth | Construction Charter requirements, essential for securing government and parastatal contracts | ■ *Ownership:* In negotiation with potential B-BBEE investor with the transaction expected to be finalised in June 2013<br>■ *Management:* Examining board composition and intention to appoint a black female non-executive director by the end of H1 2014 |
| | **Liquidity**<br>Financial management during times of growth | Balancing the group's growth (which is double construction sector growth) with liquidity to service investments in housing and development | ■ Sufficient liquidity and capital to meet business objectives through additional banking facilities<br>■ Providing company and institutional guarantees to free up cash retentions |
| | **Project execution**<br>Project delivery on time, within budget and to expected quality | Ability to start projects efficiently and manage limited senior resources and volatile labour while ensuring quality and safety | ■ Efficient risk-controlled delivery of quality projects<br>■ Formulated a tender risk process with a matrix of limits depending on size and profile of projects. Execution is monitored from appointment of the project team followed by monthly cost meetings to monitor progress of the tender and risk process<br>■ Safety, Health and Quality compliance and practices and policies are regularly checked and challenged to ensure a safe operating environment<br>• ISO 9001 accredited<br>• ISO 18001 accredited<br>• ISO 14001 accreditation underway |
| | **Skills shortage** | Scarce resources undermine delivery and expansion | ■ Creating an attractive employment proposition, a people-centred culture, skills development programme and succession planning<br>■ Employees are offered bursaries as well as skills training<br>■ Limited Duration Contract employees are trained in a wider range of skills than is required for the project to empower the workforce in that region<br>■ In-house training centre based at Germiston workshop |

| | Material issues | Challenge | Response |
|---|---|---|---|
| | **SHEQ**<br>(Safety, health and environmental impact on operations) | Threat to employees and group reputation<br><br>Threat to natural resources and group reputation | ■ ISO 18001 accredited<br>■ Superior safety record (LTIFR< 1.00 compared to industry average of 1.33 and actual February 2013 rolling average of 0.59)<br>■ Safety management system implemented in Africa<br>■ ISO 9001 accredited<br>■ Rejuvenated fleet which reduces fuel consumption<br>■ Fuel efficiency plan<br>■ Regular internal and external audits<br>■ Health and Safety training<br>■ 1st stage audit for ISO 14001 accreditation<br>■ Strategies for reducing, re-using and recycling resources<br>■ Environmental training |
| | **Reputation** | Investor relations, corporate governance best practice, Code of Conduct/ethical policy in place, management of expectations, customer relations | ■ Compliance to legislation, Competition Commission, whistle blowing process<br>■ Fraud awareness campaigns<br>■ Zero tolerance of transgressions |

In defining the material issues, Esorfranki was guided by the following factors:


## Material issues

- Growth
- B-BBEE
- Liquidity
- Project execution
- Skills shortage
- SHEQ
- Reputation

# What impacts the group (continued)

## Macro-economic context

The world economy, the South African economy and particularly the markets in which Esorfranki operates are still feeling the effects of the economic crisis of 2008 and the ongoing financial turmoil, especially in Europe.

The South African construction sector is further impacted by rising power costs and delayed project start-ups, including delays in contract awards and developments.

The State of the Civil Construction Industry survey, released in January 2013 by First National Bank (FNB) and the Bureau for Economic Research (BER), shows that confidence in the sector fell for the fourth quarter of 2012, from a four-year high of 42 index points in the third quarter to 36 points.

The key factor impacting the recovery of South Africa's construction industry is the pace at which government rolls out its planned infrastructure expenditure. However, tenders relating to government's infrastructure plans have been slow in coming to market.

The industry has further shed 15 000[1] jobs in the last quarter of 2012 and the country has lost another 100 000 jobs in the first quarter of 2013.

The South African construction sector is currently characterised by high levels of capacity in a low growth rate environment, despite the slight uptick in the general economy having spurred a gradual improvement. The slowdown in private sector work and sluggish allocation of funds by government for major infrastructure projects means the domestic market remains challenging. Real construction industry growth of 3,6% is expected for 2013.

In contrast, African markets offer more opportunities, albeit with higher risks.

Discipline is required in selecting contracts and clients carefully to avoid the pitfalls of non-payments and onerous, non-standard contracting conditions. Esorfranki Geotechnical has had an established footprint in Africa for more than 20 years. Esorfranki Civils and Esorfranki Pipelines have also commenced contracts in neighbouring countries. With considerable experience of operating in Africa, Esorfranki understands the logistical, political, taxation and foreign exchange regulations in the areas in which the group operates.

Cross-border contracts follow a selection and risk process with oversight and tender approvals by the CEO and CFO as well as vetting by the group tax and treasury manger.

However, African markets are also experiencing increased competition, particularly from European and South American contractors.

[1] *Statistics South Africa Quarterly Labour Force Survey Quarter 4, 2012.*

## Stakeholder engagement

We recognise that building mutually beneficial long-term relationships with all stakeholders is fundamental to creating sustainable value. So the viewpoints of all of our identified stakeholder groups are captured through various mechanisms, and then translated into all our decision-making processes.

The table below sets out with whom we engage, how, and our method of integrating feedback into strategy and operations. As stakeholder interests are dynamic, they require ongoing management and this is a continuous and evolving process.

| Stakeholder group | What matters | How we communicate and gather feedback | Our response |
|---|---|---|---|
| Employees | ■ Job security<br>■ Job advancement<br>■ Change-management<br>■ Safety awareness, health and wellness | ■ Intranet<br>■ Training sessions<br>■ News updates<br>■ Poster campaigns<br>■ Toolbox talks at all sites<br>■ Handbooks<br>■ Individual performance reviews | ■ Increased investment in training and talent management<br>■ Ongoing safety programme<br>■ Stronger health focus |
| Clients | ■ Project execution<br>■ Market conditions | ■ Relationships maintained with key long-term clients through:<br>• Service contracts<br>• Face-to-face meetings<br>• Letters and email updates<br>• Events | ■ Exceptional, innovative, dedicated service<br>■ Client meetings to discuss potential issues |
| Investors | ■ Market performance<br>■ Sustainable growth<br>■ Reputational issues | ■ Annual and interim reports<br>■ Results presentations<br>■ SENS announcements<br>■ General meetings<br>■ Site visits<br>■ Road shows<br>■ Teleconferences<br>■ JSE showcases | ■ Deliver sustainable ROI<br>■ Feedback at group and divisional EXCOs on group performance and client responses |
| Trade unions | ■ Wage negotiations<br>■ Conditions of employment<br>■ Engagement on health and wellness issues | ■ Regular meetings at the relevant levels in South Africa | ■ Ongoing focus on labour and employee relations<br>■ Consistency in industrial relations<br>■ Maintaining industry level relationships to avoid site negotiations<br>■ Recognition agreements at industry level |
| Major contractors, suppliers and business partners | ■ Project execution<br>■ Costs<br>■ Market conditions | ■ Contracts and service agreements<br>■ Meetings<br>■ Workshops<br>■ Presentations<br>■ Training<br>■ Industry body meetings<br>■ Events | ■ Key focus areas measured regularly through:<br>• Negotiating fair credit terms<br>• On time payment<br>• Assisting emerging contractors with cash advances |

# What impacts the group (continued)

| Stakeholder group | What matters | How we communicate and gather feedback | Our response |
|---|---|---|---|
| Government, local authorities and regulatory bodies | ■ Environmental compliance<br>■ Fair competitive practices<br>■ Skills development<br>■ Job creation | ■ Formal and informal meetings<br>■ Consultations and workshops<br>■ Conferences and seminars<br>■ Tender submissions<br>■ Presentations | ■ Group-wide adoption of ISO 18001 and ISO 14001 accreditation framework (safety and environment)<br>■ Continual focus on artisan training and skills development<br>■ Enterprise development<br>■ Employee awareness of Code of Ethics and Conduct |
| Communities in which the group operates | ■ Sustainability of CSI investment<br>■ Improved enterprise development and CSI scores | ■ Using local contractors for projects<br>■ Community liaison | ■ Ongoing CSI projects<br>■ Sponsorships<br>■ Donations<br>■ Programmes in partnership with the Universities of the Witwatersrand and KZN<br>■ Partnerships with local communities |
| Industry | ■ B-BBEE challenges in the construction industry | ■ Representation on key industry bodies<br>■ Meetings<br>■ Correspondence<br>■ Newsletters<br>■ Sponsorship | ■ Improve B-BBEE rating to maintain competitiveness<br>■ Improve scores for CSI, enterprise development and preferential procurement year-on-year<br>■ Current focus:<br>• Ownership (June 2013)<br>• Board composition (August 2013) |

The group belongs to the following industry associations:

- National Home Builders Registration Council ('NHBRC')
- Regional Master Builders Associations ('MBAs')
- SAFCEC
- SAICE
- South African Bureau of Standards ('SABS')
- South African Society of Trenchless Technologies ('SASTT')

The bigger the pipe the bigger the fittings BG3.

## Group risk

Esorfranki's full risk management processes are discussed in more detail on page 40. The most significant risks faced by Esorfranki are indicated in the risk matrix below:

| Material risks | Response | Material issue |
|---|---|---|
| Dependency on government infrastructure spend | ■ Product diversification<br>■ Strategic B-BBEE rating<br>■ Market diversification<br>■ Contractor finance | Growth<br>B-BBEE<br>Liquidity |
| Working capital management | ■ Reviewing secured work<br>■ Weekly cash flow forecast<br>■ Working capital facilities<br>■ Getting tougher on debt collection | Liquidity |
| B-BBEE | ■ Promotion from within<br>■ Strategic management of transformation process at board level<br>■ Ownership deal under negotiation<br>■ Strengthening of board composition | B-BBEE |
| Material shortages/delivery delays | ■ Proper planning<br>■ Qualifying bids<br>■ Site contracts and manuals | Project execution |
| Credit risk and cost reporting | ■ Monthly review at EXCO<br>■ Monthly review of contract financials<br>■ KPA of divisional managers to include trade receivables collections<br>■ Credit policy with varying limits for approving client credit limits | Liquidity |
| Bribery and corruption | ■ Obtain court interdicts<br>■ Exposure of corruption through whistle blowing<br>■ Enforce Code of Ethics and Conduct<br>■ Established Social and Ethics Committee<br>■ Formalise internal investigation capability<br>■ Zero tolerance | Reputation |
| Competition | ■ Commitment to fair competition<br>■ Build on reputation through strong brand<br>■ Be competitive in terms of price and quality<br>■ Include alternative bids in tendering<br>■ In-house design capability | Reputation |
| Underperforming contracts | ■ Immediate identification and response<br>■ Ensure accountability<br>■ Appoint the right people in the right jobs<br>■ Minimise non-conforming reports<br>■ Project cash flow reporting | Project execution |

## Group strategy and challenges

Our strategic objectives for the year ahead address the challenges listed below:

***Short-term challenges*** for 2013/2014 include the slowdown in public sector infrastructure spend (large-scale projects), a price competitive environment and increasingly difficult contract terms, continued margin squeeze, improving B-BBEE, organisational development and delayed payment cycles from government and main contractors.

***The medium to long-term challenges*** include expanding our product offering and extending our market share, geographical diversity for Esorfranki Civils and Esorfranki Pipelines, improving B-BBEE to Level 2 and expanding further on-the-ground presence in growth nodes in Africa.

***2014***

Esorfranki Geotechnical is a leader in the industry, both within South Africa and cross-border. The business model is mature resulting in less volatility in revenue and margins but this also considerably constricts opportunities to grow market share. Due to its position in the market Esorfranki Geotechnical is well-placed for repeat business through negotiated work. The order book and margins are not yet expected to return to pre-2008 levels.

The group's order book in both Esorfranki Civils and Esorfranki Pipelines is at a healthy level for the coming year. Margins, although still tight, are at improved levels compared to 2013. The current year will see a renewed focus on reducing contract losses to nil projects through a stringent tender process and authority levels. In addition, there will be a group-wide focus on employing the right teams to execute the deliverables and monitoring of progress through monthly project review meetings.

### Strategic objectives

| Strategic objective | Drivers | 2013 Achievements | Focus for 2014 | Medium to long-term strategy and focus |
|---|---|---|---|---|
| **Market agility**<br>Growth<br>Project execution | To drive growth Esorfranki must have the flexibility to adapt to the changing market conditions. The group intends to achieve this through diversification in product offering and growth in market share | ■ Established on-the-ground operations in Ghana<br>■ Reduced dependence on government infrastructure projects by targeting private sector clients<br>■ Growing market share through improved efficiencies in project execution, high safety standards and timeous delivery | ■ Securing significant advance payments on foreign contracts<br>■ Becoming and remaining contractor of choice<br>■ Only crossing one border at a time<br>■ Leveraging Esorfranki Geotechnical's footprint into Africa<br>■ Negotiating additional work though current project development<br>■ Securing pipelines contracts in Swaziland with further potential to expand in African markets<br>■ Esorfranki Civils secured contract in Botswana and continuing to seek work in Mozambique | To expand product offering and market share and geographical diversity in Esorfranki Civils and Esorfranki Pipelines. Esorfranki will:<br>■ Secure long-term contracts to create future visibility and to underpin sustainability<br>■ Target sustainable growth nodes within government infrastructure programmes<br>■ Expand into neighbouring African countries on the back of investment programmes<br>■ Focus on concession and development projects<br>■ Focus on private sector clients to balance dependency on government contracts |

| Strategic objective | Drivers | 2013 Achievements | Focus for 2014 | Medium to long-term strategy and focus |
|---|---|---|---|---|
| **Strategic operational management**<br>Growth<br>Liquidity<br>Project execution | ■ Continual focus on driving efficiencies to drive growth<br>■ The price competitive environment and increasingly difficult contract terms and conditions require adaptive operational management<br>■ Implementing and adhering to limits of authority levels | ■ Monthly reviews of portfolio to identify opportunities to augment profitability and enhance synergies, increase product and service offering<br>■ Invested R194 million in property, plant and equipment in FY 2013<br>■ Capital asset expansion programmes secured on the back of long-term contracts, boosting price competiveness and efficiency<br>■ Civils plant capacity expanded, enhancing efficiency and resource optimisation<br>■ Group driven by common values, business philosophies and practices | ■ Securing diversity in order book<br>■ Improve repeat business percentage<br>■ Leveraging the group's strengths in African footprint as well as value chain | ■ Expand product offering and market share growth |
| **Financial management**<br>Liquidity | ■ To ensure business sustainability and shareholder returns | ■ Improved profitability and synergy of divisions by focusing on cost structures, tender submissions and contract execution<br>■ Rationalise duplicate costs and resources, enhancing shared values and cohesiveness<br>■ Improved external debt position by applying capital raised in successful bond programme to settle facilities<br>■ Secured short-term working capital facilities to accommodate growth and delayed payment cycles<br>■ Increased focus on cash management through guarantees *in lieu* of cash | ■ Securing significant advance payments on foreign contracts<br>■ Strict working capital management and reporting<br>■ Weekly cash reporting and forecasting<br>■ Including cash and interest in KPI's | ■ Improve liquidity and become partner of choice to suppliers and contractors through predictable payment terms |

# What impacts the group (continued)

| Strategic objective | Drivers | 2013 Achievements | Focus for 2014 | Medium to long-term strategy and focus |
|---|---|---|---|---|
| **Improving B-BBEE**<br>B-BBEE | ■ To address the Construction Charter requirements Esorfranki strives to improve B-BBEE scoring by December 2013<br>■ To maintain market position | ■ Maintained Level 4 B-BBEE certification | ■ Currently considering B-BBEE ownership transaction to exceed requirements<br>■ Pursuing appointment of black women to board<br>■ Achieve Level 3 by December 2013 | ■ Improve B-BBEE scorecard to Level 2 |
| **Skills shortages**<br>Skills shortage | ■ Employees are a crucial element for success in an industry where skills are scarce<br>■ To establish a skilled, stable workforce | ■ Remuneration policy<br>■ Retention strategy<br>■ Manpower and succession planning<br>■ Employment equity<br>■ Training and development programme | ■ Formal improved remuneration policy<br>■ Improved industrial relations<br>■ Manpower and succession planning<br>■ Retention strategy<br>■ Employment equity<br>■ Improved training and development | ■ Improved levels of staff retention with increased skills<br>■ Skills development training for short-term contractors to enrich wider industry skills pool<br>■ Skills development programmes including bursaries |
| **Health and safety**<br>SHEQ | ■ To maintain an excellent safety record to continue differentiating from peers and secure contracts | ■ ISO 18001 accreditation | ■ Retain safety ISO 18001 accreditation (surveillance audit June 2013)<br>■ Improve near miss reporting and actions based on analysis of near misses and actions implemented | ■ Create interdependencies and caring for fellow workers |
| **Environmental impact**<br>SHEQ | ■ To achieve high standards of environmental care in compliance with all applicable legislation and international best practice | ■ ISO 14001 accreditation underway | ■ Achieve environmental ISO 14001 accreditation | ■ Supply chain management to include assessment of environmental impact<br>■ Carbon emissions to be formally measured and managed |

Lateral support at 102 Rivonia Road Sandton.

# Operational reviews

7,3%
REVENUE GROWTH

10%
OPERATING MARGINS

**Roy McLintock** – Managing Director
*BScEng (Civil) Natal, PrEng, MSAICE*
Over 30 years' experience

Esorfranki Geotechnical is a 'one-stop geotechnical shop' – the largest geotechnical contractor in South Africa and well-established in the Southern African region. Through Esorfranki Geotechnical the group offers a full 'design and construct' service, including piling, pipe, culvert and bridge jacking, dynamic compaction, soil improvement, micro piling and lateral support.

## Key distinguishing features

- Market share dominance and leadership
- Geographical representation and alliances
- Design and construct capability
- Plant resource capacity and capability

## Achievements

- Consolidation of existing footprint across sub-Saharan Africa
- New operation in Ghana
- R&D kept abreast of cutting edge technology
- Continued upgrade of plant and resources
- Development of employees

| Financial performance | **2013 R'000** | 2012 R'000 | 2011 R'000 | 2010 R'000 | 2009 R'000 |
|---|---|---|---|---|---|
| Revenue (external) | **787 857** | 734 092 | 706 672 | 944 862 | 1 190 192 |
| Operating margin | **10%** | 7% | 3% | 17% | 14% |
| Segment assets | **734 464** | 722 746 | 662 228 | 754 541 | 944 471 |

## Divisional management

R McLintock (MD), G Boyd, G Byrne, D De Sousa Neto, A Field, R Goss, G Heasman, R Louw, R Schultz, I Stephen, M Taitz, A Vaudrey

Revenue increased 7,3%, driven by growth in sub-Saharan Africa. Revenue from foreign operations grew 33% to R365 million. Operating margins for the year were 10%. Foreign operations achieved an operating margin of 17% contributing 79% of the division's operating profits.

Locally, Esorfranki Geotechnical secured new projects in KwaZulu-Natal including piling for the Umgeni interchange upgrade and a contract for the Umdloti River Bridge. In Gauteng five major piling projects are currently underway in Sandton. The company also secured two projects in the renewable energy sector, a wind farm in the Eastern Cape and a solar farm in the Northern Cape. Esorfranki Geotechnical also made inroads into the infrastructure for cellular transmission towers market.

Further afield, Esorfranki Geotechnical focused on consolidating and upgrading its resources in African geographic nodes. This included the establishment of a fully resourced operation in Ghana, which will enable the company to further capitalise on infrastructure growth in the country. In addition, construction of marine temporary work for seven groynes in the coastal town Ada in Ghana is underway. Esorfranki Geotechnical also secured two contracts in Uganda, the lateral support for the new Auditor General building in Kampala and the piling for the extension to Nile Breweries in Mbarara. This represents the company's first foray into Uganda – a country with significant infrastructure prospects. Projects in Angola continued to tick over.

## Employees

1 169

## Operational challenges

- Unresolved Competition Commission investigation- currently inactive

## Future developments

- Solar green energy prospects including transmission and cellular tower foundations
- Growth driven by the government infrastructure programme
- Sustainable growth in Africa on the back of resource demands
- Focused attention on amicable resolution of Competition Commission investigation
- ISO 14001 (environment) accreditation underway

**Pile drilling at solar farm.**

**47%**
REVENUE GROWTH

**6%**
OPERATING MARGINS

Esorfranki CIVILS

**Mark Rippon** – Managing Director
*NHD Civ Eng (Wits)*
22 years' experience

Esorfranki Civils specifically focuses on road building, mining and township infrastructure work, housing, micro-building, water and sewerage reticulation contracts and concrete projects for government, major mining houses and the private sector.

Esorfranki Civils boasts a comprehensive plant inventory.

## Key distinguishing features

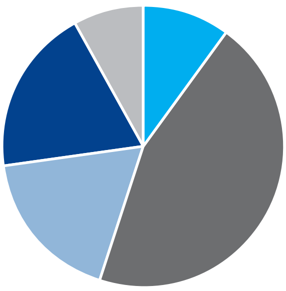
- Versatile and diversified civil engineering capability
- Talented and experienced management
- Newly expanded plant capacity and capability

## Achievements

- Seamless management transition
- Further expansion into Africa
- Plant expansion programme improved operating efficiency
- Increased longer-term projects in order book

| Financial performance | 2013 R'000 | 2012 R'000 | 2011 R'000 | 2010 R'000 | 2009 (post acquisition – 4 months) R'000 |
|---|---|---|---|---|---|
| Revenue (external) | **1 214 549** | 820 396 | 518 787 | 715 033 | 148 993 |
| Operating margin | **6%** | 3% | (0,6%) | 20% | 41% |
| Segment assets | **963 994** | 583 537 | 454 761 | 442 162 | 382 169 |

## Civil turnover by contract type




The civil engineering sector remained challenging in 2013. Despite intense competition, the division increased its order book by 22% and has a full order book for 2013 with promising margins on long-term projects.

All contracts conducted over the year were successful in terms of progress. Operational efficiency was driven by securing long-term contracts including from Eskom, Bakwena Platinum Corridor Concessionaire, Gauteng Department of Roads, Anglo Thermal Coal, and private infrastructure developments.

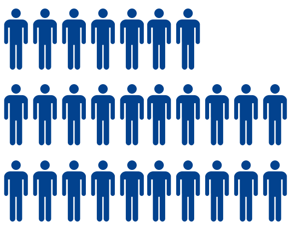
In the year ahead, Esorfranki Civils intends pursuing contracts outside South Africa starting in Botswana. Esorfranki Civils' strategy going forward will include entering into private housing development projects, which will broaden the customer base and provide long-term solidified consolidation, where necessary.

## Operational challenges

- Significant dependency on government contracts
- Price competitive environment
- Protracted contract awards in Mozambique

## Divisional management

M Rippon (MD), E Burman, A de Jager, M Green, A Hansen, M, Jawa, A Naude, E Stockter, S Robertson



## Employees

2 701

## Future developments

- Market entry into the integrated mix-use housing developments – both private and government contracts
- Focused attention on the coal mining industry
- Continued investment in plant resources on the back of long-term secured contracts
- ISO 14001 accreditation underway
- Growth driven by the government infrastructure programme

**Kusile power station from above 2.**

**42%**

REVENUE GROWTH

**9%**

OPERATING MARGINS

**Dave Gibbons** – Managing Director
*Dip Survey*
24 years' experience

Esorfranki Pipelines focuses on the construction and rehabilitation of on-shore pipelines and operates mainly in the gas and petrochemical, water, stormwater and sanitation sectors. The unit has specialist experience in laying and welding steel pipelines.

## Key distinguishing feature/developments

- Specialist continuous welded steel pipeline contractor
- Specialist in large bore pipelines
- Specialist plant to undertake large bore pipelines

## Achievements

- New contract awards
- Extending footprint to Swaziland
- Secured long-term order book

| Financial performance | 2013 R'000 | 2012 R'000 | 2011 R'000 | 2010 R'000 | 2009 (post acquisition – 4 months) R'000 |
|---|---|---|---|---|---|
| Revenue (external) | **323 552** | 227 821 | 169 005 | 229 231 | 85 361 |
| Operating margin | **9%** | 1% | (2%) | 14% | 38% |
| Segment assets | **191 552** | 84 007 | 87 092 | 167 121 | 197 011 |

## Divisional management

D Gibbons (MD), P Kilian, A Rheeder, R Torry

Esorfranki Pipelines achieved an order book of R520 million by year-end, more than compensating for the loss of the Western Aqueduct contract in the previous year. A number of contracts were secured in KwaZulu-Natal including contracts from Umgeni Water for the Umlaas Road and the Lower Thukela pipeline. A further sanitation project was secured in the region for the eThekwini Municipality as well as a number of smaller pipeline projects. In Limpopo, the Steelpoort Mooi Hoek project is still underway with a new phase commencing. The BG3 project is nearing completion. Esorfranki Pipelines expanded its footprint with the Mnlumi pipeline in Swaziland.

## Operational challenges

- Protracted awards experienced
- Intensified competition
- Cancellation of Western Aqueduct contract
- Unresolved BG3 contractual dispute

## Employees

763


## Future developments

- Focus on opportunities in neighbouring countries
- ISO 14001 accreditation underway
- Investment in plant capacity on the back of long-term secured contracts
- Growth driven by the Government infrastructure programme

**Pipelaying at Umlaas Road.**

# Leadership

## Board

**Members**

*Executive directors*
B Krone (CEO)
WC van Zyl (CFO)
(appointed 8 October 2012)
A Brookstein (retired 31 January 2013)
W van Houten (CFO)
(resigned 30 September 2012)

*Independent non-executive directors*
DM Thompson (Chairman)
EG Dube
MB Mathabathe
Dr FA Sonn

**Risks**

- Reputational risk
- Sustainability risk

## Committees

| Committee | Audit | Risk | Human Resources and Nominations | Social and Ethics | EXCO |
|---|---|---|---|---|---|
| Members | Dr FA Sonn (Chairman)<br>DM Thompson<br>EG Dube | Dr FA Sonn (Chairman)<br>DM Thompson<br>EG Dube<br>WC van Zyl (CFO)<br>P Colman (Group Risk Officer)<br>*By invitation*<br>CEO and other board members and divisional MDs | Dr FA Sonn (Chairman)<br>DM Thompson<br>MB Mathabathe<br>*By invitation*<br>B Krone (CEO)<br>WC van Zyl (CFO)<br>W Neuwenhuis (Group Human Resources) | B Krone (Chairman)<br>WC van Zyl<br>DM Thompson<br>EG Dube<br>MB Mathabathe<br>Dr FA Sonn<br>W Neuwenhuis (Group Human Resources) | B Krone (CEO)<br>W C van Zyl (CFO)<br>R McLintock (Geotechnical)<br>MG Rippon (Civils)<br>D Gibbons (Pipelines)<br>P Africa (Group SHEQ)<br>W Neuwenhuis (Group Human Resources) |
| Risks | ■ Accounting and tax risk<br>■ IT risk | ■ Operational risk<br>■ Compliance risk<br>■ Insurance and assurance risk<br>■ Reputation risk | ■ People risk<br>■ Transformation risk | ■ Reputation risk<br>■ Stakeholder relations risk | ■ Strategic risk<br>■ New business risk<br>■ Operational risk |
| Number of independent directors | 3/3 | 3/3 | 3/3 | 4/6 | n/a |
| Self-evaluation completed | Yes | Yes | Yes | n/a | n/a |

## The board's key skills

The board comprises professionals who, collectively, hold considerable experience in managing and leading, global experience, corporate governance, strategy, health, safety and environment, remuneration, public policy and the construction industry.

## Directorate

### Bernie Krone (born 1953)

**CEO**

BSc Eng (Civil), Pr Eng, FSAICE

Bernie was born in Halstead, England and moved to South Africa as a child. After attaining Professional Engineer status in 1982, he gained experience in the employ of major geotechnical engineering companies before joining Esor (Pty) Limited, which became Esorfranki. He has over 36 years' experience across all aspects of geotechnical engineering.

### Wessel van Zyl (born 1967)

**CFO**

CA(SA)

Wessel qualified as a Chartered Accountant in 1991 after serving articles with PwC.

He left the auditing profession to work in the financial and taxation fields, later joining the construction industry in 1997. Wessel previously worked in the specialist fields of auditing, taxation and treasury at the Aveng Group before he was appointed at Grinaker-LTA as Financial Director in 2009. Wessel joined Esorfranki as CFO on 8 October 2012.

## Independent non-executive directors

### Dave Thompson (born 1936)

**Chairman**

CA(SA)

Dave qualified as a Chartered Accountant and is also a member of the Association of Accountants and Auditors in the United Kingdom. He has further studied for the Advanced Management Programme at Harvard in the USA. Dave has vast business experience, having served on a multitude of boards.

### Ethan Dube (born 1959)

MSc (Statistics)

Ethan worked at Standard Chartered Merchant Bank for several years in the Corporate Finance division and then spent six years in asset management. In 1998 he formed an Investment Banking division at African Harvest Limited and in 2002 concluded the management buy-out of the operating subsidiaries and strategic assets. Ethan is currently CEO of Vunani Limited and a non-executive director of Hyprop Investments Limited.

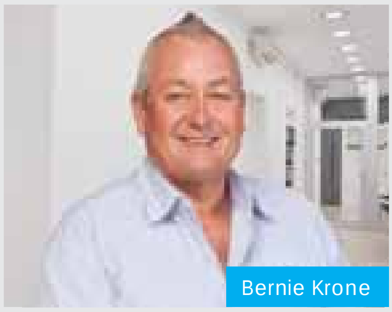
### Malemadutje (Briss) Mathabathe (born 1942)

Briss has extensive experience in all aspects of the initiation, structuring, implementation and operation of capital investment projects. He is well-known to government, parastatals, development agencies, export bodies, contractors and financiers and is currently Chairman of Imbani Holdings (Pty) Limited and serves as a director on a number of boards.

### Dr Franklin Sonn (born 1939)

BA (Hons), STD, FIAC

Democratic South Africa's first ambassador to the United States (1995 – 1998), Franklin is the recipient of 13 honorary doctorates from national and international universities and has held many distinguished positions in education and business in South Africa. He currently serves as a non-executive director on the boards of a number of blue chip companies including Macsteel Service Centres SA (Pty) Limited, Steinhoff International Holdings Limited, RGA Reinsurance Company of South Africa, Imalivest (Pty) Limited and Xinergistix Management Services (Pty) Limited. He is former Chancellor of the University of the Free State and former President of the Afrikaanse Handelsinstituut. He has served on the board of Esorfranki since 2007.



Bernie Krone

Wessel van Zyl

Dave Thompson

Ethan Dube

Briss Mathabathe

Dr Franklin Sonn







# Executive management

**Roy McLintock (born 1953)**
**Esorfranki Geotechnical**
BSc Eng (Civil) Natal, PrEng, MSAICE

Roy has worked in both the consulting and contracting realms of the industry for the last 35 years. A large portion of his contracting experience was gained in his 15 years at Murray & Roberts where he held the position of Managing Director of the B&S Group (Murray & Roberts' KwaZulu-Natal civil engineering entity). Roy joined Franki Africa (Pty) Limited in 1999 and has held the position of Managing Director for both this entity as well as Esorfranki Geotechnical since March 2002.

**Arthur Field (born 1952)**
**Esorfranki Geotechnical**
NDT (ES) (TN)

Arthur obtained a National Diploma for Engineering Surveying and worked for premier marine and civil engineering company Christiani & Nielsen before joining Esorfranki in 1981. He has gained extensive experience in all aspects of geotechnical engineering in his 31 years' service with the company and is currently a director and manager of the KwaZulu-Natal branch of Esorfranki Geotechnical.

**Mark Rippon (Born 1971)**
**Esorfranki Civils**
HND Civ Eng (Wits Tech)

Mark studied at Witwatersrand Technikon and qualified as a Civil Engineering Technician in 1993. He started his career at WBHO as a technician and advanced to the position of contracts manager. He subsequently joined Patula Construction as contracts manager and promoted to contracts director in 2003. In 2008, Patula Construction was acquired by Esorfranki where he remained as divisional director of Esorfranki Civils and later appointed as Managing Director in 2012. He has a broad range of experience including Contract Management, Contract Law and Construction Finance.

**Dave Gibbons (born 1966)**
**Esorfranki Pipelines**
Dip Mining Survey

After qualifying in the mining industry in 1988, Dave joined WK Construction where he served for 18 years garnering substantial experience in the pipeline industry before forming Shearwater KZN where he worked as a director. Dave is currently the Managing Director of Esorfranki Pipelines.

**William Neuwenhuis (born 1960)**
**Human Resources**
BA Social Sciences (UPE)

After completing his national service, William joined Eskom as a Human Resources Officer. In 1989 he was offered the position of Human Resources Manager with Group Five Roads & Earthworks (Western Cape) where he was later promoted to alternate director. William joined Franki Africa (Pty) Limited during 1999 as Human Resources Manager. William is currently the Human Resources Director of Esorfranki Construction.

**Patrick Africa (born 1967)**
**Safety, Health, Environment, Quality (SHEQ)**
ND (Safety Management)

Patrick has worked in the shipping, gas, petrochemical, steel, roads and earthworks and civils industries for the past 26 years. He completed his entry level qualification in safety in 1996 and in 2001 joined Fluor Global as a Safety Supervisor, travelling to different parts of South Africa on major revamp contracts. In 2004 Patrick joined Concor Civils as a Site Safety Manager, and was promoted to Concor Roads and Earthworks Divisional SHEQ Manager in 2007 and was part of the team heading the Gautrain Project. Patrick joined Esorfranki in 2010 as the Group SHEQ Manager.

# Ethical leadership

The board strives to ensure that the company conducts its business with the utmost integrity in all dealings with all stakeholders. The Social and Ethics Committee, which is accountable to the board of directors, is mandated partly to assist the board in this endeavour.

Esorfranki's Social and Ethics Committee, established in the prior year, monitors compliance with relevant social, ethical and legal requirements and best practice codes. In addition, as part of its responsibility for overseeing the organisational integrity and ethics, the committee reviews the Code of Ethics and Conduct annually and recommends it to the board for approval. It also reviews cases of conflicts of interest, misconduct or fraud, or any other unethical activity by employees or the company. It also ensures that the company's ethics performance is assessed, monitored, reported and disclosed.

## Code of Ethics and Conduct (the Code)

The Code commits all employees to the highest standards of business conduct. The group's core values are embodied in the Code which requires the company, including employees, associates and business partners, to commit to maintaining the highest levels of competency, ethical conduct and integrity and, at all times, abiding by the law to ensure its reputation is beyond reproach. The Code also refers to the group's dealings as they relate to customers, government and political activities, employment practices, transformation, occupational health, safety and environment, the community, the board of directors and management and the personal conduct of employees.

The Code is communicated to employees across the group on employment, with aspects reinforced via newsletters and posters at the group's offices and sites.

In order to assist with enforcement of the Code, the group has a whistle blowing process in place and employees are made aware of the anonymity of the process to eliminate fear of intimidation when reporting incidences. Information regarding the process appears on payslips and in booklets distributed to each employee, and will also appear on the intranet in the future.

During the year the group identified fraudulent transactions in the Civils division. The employee was dismissed and a case of fraud was opened with the SAPS and the court process is underway. Several minor incidents of diesel and wage fraud were identified and appropriate action was taken including dismissal, where appropriate.

www.esorfranki.co.za

# Chairman's and CEO's report

**Bernie Krone** – CEO
**Dave Thompson** – Chairman

The past year and its recent predecessors have undoubtedly aged us. They have not been easy, but they have taught us invaluable wisdom and developed our industry experience. Most importantly, they have been determinedly taking us, albeit erratically at times, to a stronger future. The year under review, more than any other, marks our ascendancy north (and a few more trophies in our hunting room).

Our solid results for the year denote three profitable half-year periods in a row, establishing the foundation for our sustainable turnaround. Our order book has increased for the third consecutive year and stood at R2,5 billion at 28 February 2013, a 33% year-on-year gain.

The domestic construction sector as a whole remained depressed. A major contributing factor was the failure of government's infrastructure spend to materialise, a critical driver for a meaningful recovery. The troubled operating environment made for a complex business terrain. Competition was inevitably fierce on the arid plains. But even a hunter who overcomes competing hunters with their eye on the same target, may still be foiled by the horsefly biting him just as he shoots. Those horseflies abound, and during the year included continued cash flow strain as a result of industry-wide contracting practices.

Like any hunter in rough terrain, we met with mixed fortunes but, in our case, we prevailed. All divisions remained profitable with good future prospects. Our size and experience supported resilience and we are well-positioned for the year ahead.

Prospects in Africa remained buoyant, and add impetus to a positive outlook for the future. This opportunity was reflected in our foreign revenue for FY2013 growing by 33% over the previous year and reaching a contribution to total revenue of 16%. During the year we established on-the-ground operations in Ghana, another high growth region on the continent.

## *"Global warming wreaking havoc on the savannah"*

The economic environment in South Africa has remained constrained by the global financial outlook. The sovereign debt crisis in Europe persisted in the year and, deep structural problems, remain despite periodic interventions, restraining GDP growth in many economies including our own.

In light of this, significant growth in the local economy is a distant target. National Treasury has revised real growth estimates downward from 3,0% to 2,7% for 2013, some of the lowest in sub-Saharan Africa. (They and the South African Reserve Bank do estimate some improvement to 3,8% by 2015.)

Turmoil across Europe continues and the USA is hardly a beacon of light to a world looking for a saviour. It is still questionable whether the BRICS alliance will bear fruit. China's economic fortunes seem to be easily manipulated from within to produce the desired result of a continued booming economy.

The South African construction industry expanded in nominal terms, contributing just over 3% to the production side of the economy in the year under review. This is only a plodding improvement, and dark clouds continue to hover.

In greener pastures Africa is brimming with promise, and infrastructure spend is on the up. As a group Esorfranki is well-established on the African continent – Esorfranki Geotechnical intrepidly ventured into Africa more than 20 years' ago. We are well-educated to manage the inherent risks in our cross-border contracts.

"The old man in me is travelling north with the Buffalo which taught me wisdom"

*– Poet Nancy Wood*

Our solid results for the year denote three profitable half-year periods in a row, establishing the foundation for our sustainable turnaround.

## *"Those pesky horseflies"*

Certain practices in our industry are hampering more significant growth for the group.

To begin with, low margins are a consequence of the current economic environment. We accept this, albeit reluctantly. However, as contractors we are still compelled to effectively fund our clients' projects, and are not merely reluctant to do so but resentful. Contracting practices embedded in our industry expose contractors to undue cash flow strain. The requirements of providing upfront bank-guaranteed performance bonds as well as retention deductions to the extent of 10% of the measured completed work, are compounded by contractual payment timeframes of 30 to 60 days. We must then continue to meet our monthly financial commitments such as labour and other fixed costs, all in the face of ever-shorter payment cycles demanded by suppliers and sub-contractors.

In well-established economies these practices may work well, but in an emerging economy such as South Africa's, the norm should be expedited payment to contractors to maintain industry momentum and drive a well-oiled economy. (The assumption is reasonable that a client has in hand the necessary funds before embarking on a project, and should therefore be able to pay timeously.) Put simply, we need to engender a seven-day payment cycle in South Africa. This would keep service providers focused on delivering the service and not obsessing about collections and cash flow.

Further, performance bonds should not require bank guarantee, which impinges on a contractor's overall bank facilities and covenants. Retentions should not take the form of deductions from payment due for work done, but rather that of a retention guarantee. While we cannot empirically prove our assertion, we instinctively know that such a "user friendly payment-for-services-rendered system" will free up the entire industry wheel, remove systemic stressors, generate productivity and quality service delivery, and ultimately create jobs. Surely the key aim of any corporate hunter on South African soil?

## *"Our performance"*

### Financial results

See the CFO's report on pages 36 and 37.

### Operations

See 'Operations' on pages 22 to 27.

## *"Zero tolerance for poaching"*

In July 2009 Esorfranki was named by the Competition Commission in an investigation into alleged anti-competitive behaviour in the piling and drilling industry by Franki Africa (Pty) Limited before its incorporation into the group. Esorfranki has co-operated fully with the Competition Commission and has communicated all developments thus far to stakeholders. The issue remains before the Tribunal following an unsuccessful attempt at settlement. No further developments have transpired since last year.

BG3 tie-in valve lift.

## *"Our arsenal"*

### Sustainability

Our integrated report serves as the board's formal communication tool with our stakeholders, to keep you abreast of how we maintain the *status quo* of our actions as a corporate consumer, to ensure that we give back what we take and to give assurance that we recognise the impact of our local actions on the bigger global playground.

We have endeavoured to comply as fully as possible with the principles of GRI and King III, and have explained in the relevant instances where we have not been able to do so.

Our history speaks to our strong track record of building a sustainable business. We take seriously our responsibility to adhere to sustainable business practice, from the safety and wellbeing of our employees to the satisfaction of our customers, with due regard always to the environment in which we operate and the communities we affect in an emerging economy. While wealth creation is critical to both our stakeholders and our longevity, we operate in a world where governance, social and environmental priorities are as important to long-term survival.

During the year we implemented new initiatives to further strengthen project risk management and improve efficiencies in project execution.

We further introduced a new training initiative for unskilled employees on contracts of limited duration. This ensures not only that our contracts are executed more efficiently, but that on conclusion of a project we will leave the residents of the surrounding area more skilled and therefore employable.

Our CSI projects are intended to benefit the civil industry at the same time as uplifting the beneficiaries: The University of the Witwatersrand's Wits Science Stadium and the KwaZulu-Natal Civils Fund which supports the school of civil engineering at the University of KwaZulu-Natal.

Our Lost Time Injury Frequency Rate continues to improve and falls way below the industry average. We achieved ISO 18001 (safety) accreditation in the year and began to roll out our safety management system in Africa.

Our goal of achieving ISO 14001 (environment) accreditation is progressing well and we have implemented an environmental management system as a key step in the process.

### B-BBEE

Improving our B-BBEE scorecard is an ongoing commitment. Although we have not achieved an improvement on our Level 4 status during the year, it is not for lack of activity in this regard. We have implemented strategies across the areas of B-BBEE. These include interventions to broaden representative ownership to include black women, to review our Employment Equity Plan, to restructure our board and increase the ownership of our Broad-based Esorfranki Share Trust.

### Strategy

Our vision remains unchanged. We continue striving to become the benchmark construction company in South Africa. We intend to utilise decades of experience gained both locally and in Africa, build on our resilience and capitalise on growth opportunities when and where they present themselves.

Further reading pages 18 to 20

We aim to focus our efforts and resources on consolidating and optimising our presence in Africa, in established and new markets. In addition we will continue to develop new and diversified revenue streams locally through new products and clients. Focus areas within South Africa will be infrastructure projects initiated by government, alternative energy infrastructure and transmission and cellular tower foundation solutions.

## *"Eye on the catch"*

### Prospects

Esorfranki has been relatively successful in the acquisition of work in the still depressed, challenging construction sector.

*Esorfranki Geotechnical* remains our sub-Saharan ambassador with regional offices in Angola, Ghana, Mauritius, Mozambique, Tanzania and Zimbabwe. The division has a secured order book of 45% for FY 2014, with positive prospects locally and in all regions of sub-Saharan Africa. The short-term nature and short lead-in times of contracts means this is a respectable order book for the beginning of the new financial year.

*Esorfranki Civils'* order book has increased by 41% to R2,5 billion as a result of a number of longer-term contracts. Further contracts have contributed value to this order book and emboldened sustainability: two road contracts still in progress and due for completion in 2013, increased scope to contracts in hand at Kusile Power Station, a housing development with associated infrastructure in Kathu, and ongoing mining infrastructure work at a number of Anglo coal mines.

*Esorfranki Pipelines* has secured contracts throughout South Africa including the Eastern Cape, KwaZulu-Natal, Gauteng and Limpopo, securing a full order book for FY 2014 of R440 million. The BG3 contract for Rand Water has been filled, tested and handed over. All disputes and contractual issues have been resolved.

*"No hunter without his tracker(s)"*

## Appreciation

We would like to thank all our management and their teams for supporting our vision, believing in our objectives and working their damndest to achieve them.

Thanks too to our fellow directors for their contribution this year, and for making tracking our targets not only possible, but oftentimes enjoyable.

We also thank our business partners, suppliers and advisors as well as our clients and shareholders for their invaluable support.

**Dave Thompson**
*Chairman*

**Bernie Krone**
*CEO*

Johannesburg
23 May 2013

1 Bridge structure for river crossing N4 Mooinooi.
2 Almost complete houses at Kathu for Bestwood project.
3 Ada Groyns Ghana general arrangement – Geotech.
4 BG3 Vaal dam tie-in valve – Pipelines.


1


2


3


4

# CFO's report

**Wessel van Zyl** – CFO

## Introduction

During this financial year the group consolidated the operations into three coherent divisional units: the Geotechnical division, both from a geographical and operational viewpoint, the Civils division to a streamlined and leaner unit and in the Pipelines division the order book has been strengthened and the plant integration process completed. This consolidation has left the group stronger, more resilient and focused, but has maintained flexibility and agility to respond to market conditions and client requirements. Profitability improved for a third reporting period with operating profit for the year at R150,9 million.

The group has successfully:

- Implemented strict risk management processes in tendering, execution and reporting of contracts in a competitive construction environment
- Re-engineered the integrated financial reporting system across the group
- Further reduced duplicated costs
- Embedded the housing development business

These processes will be continuously managed to harness further efficiency and effectiveness.

## Consolidated statement of comprehensive income

The group's consolidated revenue has increased by 31% to R2 326 million on improved activity levels across all operations. The group recorded headline earnings per share of 20,50 cents (2012: 6,22 cents per share).

Gross profit margins improved to 16,0% (2012: 12,5%) while overheads increased to R105,9 million (4,6% of revenue) from R89,1 million (5,1% of revenue) on last year's comparative. Improved efficiency resulting from the rationalisation and higher activity levels impacted the middle line while also absorbing the once-off costs in raising the High Yield Bond and further impairment of debtors. The net finance cost of R44,3 million was incurred as a result of the capital expenditure programme over the last two financial years.

The effective tax rate was 17,8% (2012: 38,5%) substantially lower than the South African statutory rate of 28,0%. The lower rate is largely attributable to a prior year overprovision in Angola after finalising a tax audit, as well as the capital gain realised on the sale of the Pinetown property offset by non-deductible expenditure and other permanent differences.

The profit after tax amounted to R87,7 million (2012: R18,2 million loss).

## Consolidated statement of financial position

### Intangible assets and goodwill

The directors have tested the recoverability of our intangibles and goodwill as at 28 February 2013 based on our projections and estimates as further disclosed in notes 5 and 6 to the annual financial statements.

The directors are satisfied that no impairments are necessary.

### Property, plant and equipment

Capital expenditure of R193,9 million (2012: R257,7 million) was incurred in the current financial year. This expenditure improved operational efficiencies and capacity on the back of secured long-term contracts.

The board has approved R92 million for the 2014 financial year (2012: R199 million).

### Trade and other receivables

Trade receivables increased by R295 million due to the increased operating activity as well as delays in collecting cash from clients, especially cross-border.

The impairment provision increased by R8,3 million to R58 million (2012: R49,7 million). This provision relates to receivables in the Geotechnical and Civils business units. Provision has been raised on all contractual disputes.

The group's consolidated revenue has increased by 31% to R2 326 million on improved activity levels across all operations.

The days outstanding in the trade and other receivables increased to 129,7 days (2012: 109,3 days). This ratio is still above group risk tolerance levels, despite the improvement in the ageing of past due not impaired receivables. The group has increased its credit risk exposure in sub-Saharan Africa, especially in Angola and Mauritius. The South African credit risk exposure is around municipal, provincial and *quasi* government entities as detailed further in note 36 to the annual financial statements.

## Cash and cash equivalents

The group's operating cash reduced by R157,0 million to a R32,8 million outflow (2012: R124,2 million). It further invested R211,0 million in investing activities mainly by additions to property, plant and equipment. The cash flows from financing activities amounted to R183,8 million raised mainly from the proceeds from the high yield bond issue of R202,5 million and net of settled secured borrowings of R40,4 million.

Investment in working capital consumed R228,9 million (2012: generated R8,2 million) operating cash flow in the current year.

This investment in the growth of the group has resulted in short-term cash constraints where we had to secure short-term overdraft facilities in South Africa to support the operational activity levels during the current financial year. This facility will reduce and eventually be cancelled by December 2013.

## Share capital and premium

The share capital and premium at group level decreased by R20,7 million after consolidating the share trusts on change in control and after accounting for share options exercised. (See note 33.)

The foreign currency translation reserve improved by R25,2 million in the translation of our foreign operations into the South African reporting currency, mainly due to the weakening of the Rand.

## Non-current liabilities

Secured long-term borrowings increased by R188,6 million to fund the capital expenditure programme which has also increased the deferred tax liability mainly as a result of capital allowances claimable.

## Current liabilities

Current portion of secured borrowings decreased by R26,4 million as a result of settling some of the asset-based finance facilities after consolidation of facilities following the proceeds from the high yield bond.

Trade and other payables include R49,4 million (2012: R85,2 million) due to customers. The cost of sales' days outstanding in trade payables and others decreased by 6,8 days to 92,4 days (2012: 99,2 days).

## Financial covenants

The current group overdraft facility of R50 million is secured by trade receivables. The R1 billion domestic medium-term note programme of which R202,5 million has been issued (as detailed in note 15 to the annual financial statements) is subject to a fixed charge cover ratio required of more than 2,5 times EBITDA to finance costs (currently 6,4 times) and a net debt cover of not more than 2,5 times (currently 1,6 times).

## Dividend

The board has resolved that no dividend be declared.

## The year ahead

The group has adequate asset-based financing and guarantee facilities through financial and insurance institutions to provide both working capital and bonding facilities to support the anticipated growth for the 2014 financial year. It is the intent of the board, subject to shareholder approval, to increase the BBBEE ownership by a further 5% to maintain our competitiveness in the local market without further leveraging the group's financial position.

**Wessel van Zyl**
*CFO*

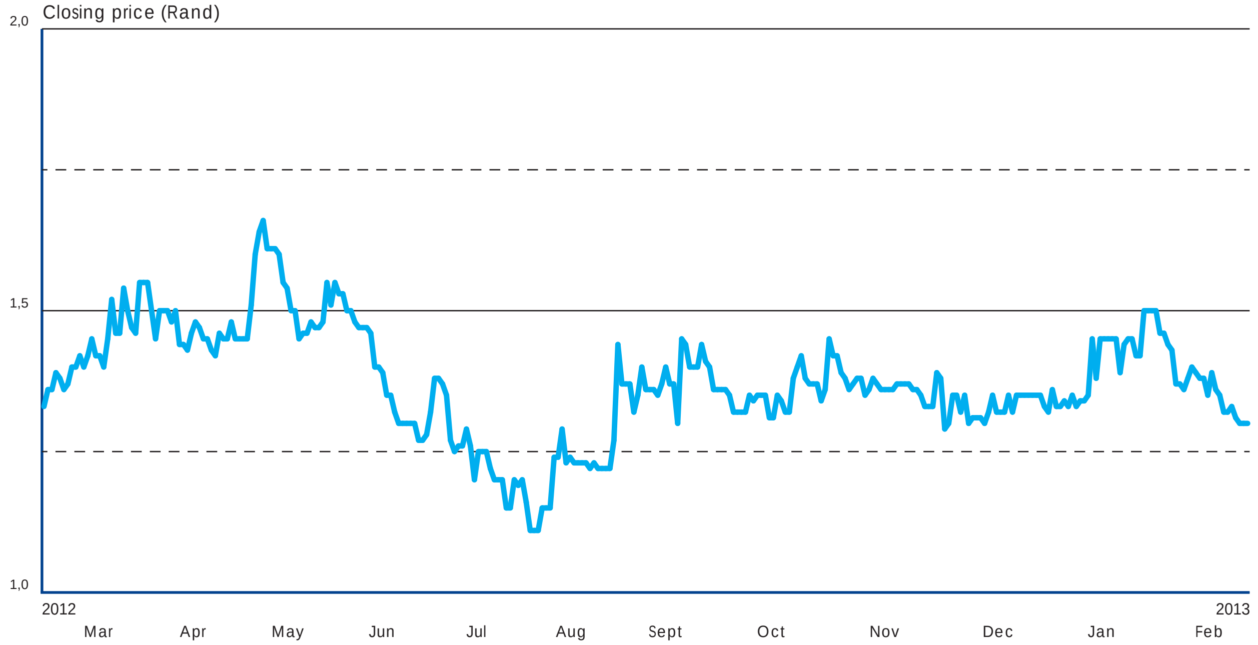
Johannesburg
23 May 2013

# Value-added statement

| | 2013 R'000 | % | 2012 R'000 | % |
|---|---|---|---|---|
| Revenue | **2 325 958** | | 1 771 692 | |
| Income from investments | **–** | | – | |
| Cost of materials and services | **(1 365 707)** | | (1 178 808) | |
| **Total value added** | **960 251** | | 592 884 | |
| **Value distribution** | **960 251** | | 592 884 | |
| **To employees** | | | | |
| Remuneration and benefits | **690 882** | **72,0** | 456 174 | 76,9 |
| **To providers of finance** | | | | |
| Finance costs | **36 890** | **3,8** | 20 302 | 3,4 |
| Forex gain on foreign bank accounts | **7 425** | **0,8** | 3 205 | 0,5 |
| **To providers of capital** | | | | |
| Dividends to Esorfranki shareholders | **–** | **–** | – | – |
| **To governments** | | | | |
| Current taxation | **7 461** | **0,8** | (7 831) | (1,3) |
| Secondary taxation on companies | **–** | **–** | – | – |
| Foreign taxation | **1 739** | **0,2** | 9 879 | 1,6 |
| **To reinvest in business** | | | | |
| Retained income | **87 710** | **9,1** | 18 216 | 3,1 |
| Depreciation and amortisation | **118 271** | **12,3** | 79 510 | 13,4 |
| Deferred taxation | **9 873** | **1,0** | 13 429 | 2,3 |

| | 2013 | 2012 |
|---|---|---|
| Number of employees | **4 654** | 3 402 |
| Revenue per employee (R'000) | **500** | 521 |
| Value created per employee (R'000) | **293** | 174 |
| Corporate social investment (R'000) | **600** | 985 |

# Share performance



BG3 tie-in valve lift.

# Reports

## Risk management

### 2013 advancements:

- Improvements to risk management recommended by internal audit
- Intention to secure independent assurance of IT risks in FY2013
- Focus area identified for FY2013 legislative compliance

### Risk framework

**Esorfranki business strategy**
*Supported by*
Esorfranki integrated risk management strategy

*Encompassing*
- Risk identification
- Control
- Policies and procedures
- Board requirements

*Enforced by*
Esorfranki people
- Competent, trained, informed of the responsibility framework

**Esorfranki board**
Sets appropriate risk tolerance levels

### Risk Committee

The Risk Committee is responsible for developing the integrated risk management strategy and presenting this to the board for approval and further input on tolerance levels. It is further responsible for communicating the relevant aspects, guidelines, instructions and recommendations to the group's people.

The Risk Committee, supported by the group risk officer Pat Colman, ensures that management adheres to a formal risk responsibility mandate. The group risk officer reports quarterly to both the Audit and Risk Committees and attends EXCO meetings bi-monthly. The Risk Committee further receives reports and obtains independent assurance on material sustainability issues.

The board is responsible for the group's systems of internal control and risk management, and for setting tolerance levels, supported by the Audit and Risk Committees and group risk officer. The systems are designed to manage rather than eliminate risk. Absolute assurance cannot be provided as these internal control systems are designed, for instance, to provide only reasonable assurance as to the integrity and reliability of the annual financial statements. The systems are also designed to safeguard and maintain accountability of the group's assets. Further, these systems should identify and curtail significant fraud, potential liability, loss and material misstatement while complying with applicable statutory laws and regulations.

The Risk Committee is governed by a formal charter which sets out its composition, role and responsibilities. The main responsibility is to provide assistance to the board in ensuring implementation and maintenance of an effective risk environment. Specifically, the committee reviews and recommends for board approval the:

- Integrated risk management strategy;
- Code of Ethics and Conduct and any corporate citizenship policies;
- Risk register as prepared by management, focusing on IT, fraud and reputational risks in addition to operational and other business risks (see page 17);
- Internal audit reports detailing the effectiveness of risk management;
- Compliance with legal and regulatory provisions, the company's Memorandum of Incorporation;
- Cases of employee conflicts of interest, misconduct or fraud.

The Risk Committee further assists the board in setting the levels of risk tolerance for the group in respect of the categories of risk which are detailed in the risk register.

In terms of the charter, the committee meets a minimum of four times annually with additional meetings held when necessary. The CFO, head of internal audit and the group risk officer are required to attend all meetings. The CEO and other board members may attend by invitation. Should any member of the committee, the group risk officer or the internal auditor request a meeting, such meeting may be arranged in consultation with the committee's chairman.

## The board

The board has set the levels of risk tolerance for FY2013, and the group's appetite, in a formal risk tolerance report. The broad areas of risk to which these have been applied include:

- Sustainability
  - revenue/gross margin for the year
  - cash flow balances
  - secured revenue
  - days outstanding in trade receivables
- Contract profitability
  - profit-making contracts
  - individual loss-making projects
  - contract penalties
  - legal/contractual disputes
- Insurance claims
- BEE
- Safety

(See page 17 for the most significant risks faced by Esorfranki.)

## Internal audit

KPMG is appointed as external consultant to the group's internal audit function. The internal audit function reports directly to the Audit Committee and meets regularly with the committee chairman and other members. The Audit Committee confirmed the independence of the internal audit function during the year, following a bi-annual declaration of independence by KPMG and in line with group policy regarding the use of external auditors on non-audit services.

The internal audit charter defines the scope of the internal audit function as assisting the board in assessing the group's risk management and governance processes. This includes the assessment of the reliability and integrity of financial and operating information, new and existing systems of internal control, means for safeguarding assets and methods of confirming consistency of results with established objectives.

Practically, the internal audit function assists the group by:

- Assisting management in evaluating their process for managing key operational, financial and compliance risks;
- Assisting management in evaluating the effectiveness of internal control systems, including compliance with internal policies;
- Recommending improvements to the internal control systems;
- Keeping abreast of new developments affecting Esorfranki's activities and internal audit work;
- Being responsive to Esorfranki's changing needs, striving for continuous improvement and monitoring integrity.

During the year under review the internal audit reported on the following areas:

- Reviewed risk management processes;
- Stock control;
- Wage processing controls;
- Creditor reconciliations;
- Reviewed current control environment; and
- Reviewed project start-up, execution and close out controls.

All areas of concern were adequately and immediately addressed with follow up reviews conducted to ensure controls are being implemented and functioning as intended.

Further reading

## External audit

KPMG, the external auditors, report on whether the annual financial statements are fairly presented in compliance with IFRS and the Companies Act. However, it remains the responsibility of the directors to prepare the annual financial statements.

The board, assisted by the Audit Committee, evaluates the independence and effectiveness of the external auditors and considers whether any non-audit services provided by such auditors impact/ed on their independence. Appropriate corrective action is taken if this is found to be the case.

## IT governance

Esorfranki recognises IT governance as an integral part of corporate governance and the responsibility of the board and executives. The group believes a well-governed IT function is critical in addressing IT risks.

The key aims for the IT governance framework are to standardise business processes across the group, reduce internal costs and ensure sound corporate governance. During the year the group migrated its infrastructure onto a single platform. This was completed in February 2013. This will enable the introduction of an intranet.

An IT governance charter (see website for full charter) formalises lines of delegation from the board and Audit Committee down through executives (CFO) to the CIO, as well as sets out policies,

www.esorfranki.co.za

procedures, and performance metrics which work together in an IT governance framework. Esorfranki also has a solid business continuity and disaster plan in place.

The following specific principles are addressed in the charter:

- Board responsibility;
- Performance and sustainability;
- IT investments;
- Risk management;
- Information security; and
- Governance structure.

The formulation of the IT governance policy has taken into account all stakeholders including the board, internal customers and specific departments, for instance finance.

The IT governance framework is intended to be comprehensive and practical, customised to the environment, integrated into the key business objectives, and monitored for compliance and performance.

The board receives an annual update on IT risks from KPMG. All risks presented in the year were deemed to be within defined tolerance levels and not considered material.

www.esorfranki.co.za

Further reading

The areas of IT risks identified during the year included:

- Business continuity;
- Prolonged downtime;
- Back-up and off-site storage;
- Security of network and desktops;
- Policies on:
  - BYOD ("Bring your own device to work");
  - Electronic communications and social media;
- Corporate governance compliance;
- Physical access to servers;
- Level of third party vendor access to the network; and
- Copyright infringement.

## Legal compliance

The group risk officer, along with the executive management, is responsible for ensuring compliance with laws and regulations and the group has in place a legal compliance checklist.

Checklists are compiled by the CFO and group risk officer, and for the year ahead focus will be on:

- Adoption and implementation of the Companies Act;
- Improved compliance with King III;
- Continued roll-out of compliance awareness forums and training; and
- Identifying and measuring compliance to all other Acts to which the company is exposed.

### JSE Limited

The company was compliant with the JSE Listings Requirements throughout the accounting period, other than for the exceptions listed below:

### Companies Act

The board remains committed to the implementation of and compliance with the new Companies Act, effective 1 May 2011. This forms a key focus area for FY 2014.

### Application of governance principles

See Esorfranki website for the complete King III compliance checklist and pages 43 to 47 for compliance for Chapter 2. The group has materially applied the majority of King III principles in its internal controls, policies, terms of reference and overall procedures, and will continue to do so.

***Exceptions report***

- Share dealing – a director traded during a closed period. This was resolved with the JSE.
- Competition Commission investigation into the pilling and drilling industries – Relating to transgressions by Franki Africa (Pty) Limited prior to the group acquisition of the company. The matter has been referred to a tribunal, which to date has not responded.
- In terms of para 3.84(a), the Nomination Committee should be chaired by the Chairman of the Board. The reason for this not being the case is because the Nomination Committee is combined with the Human Resources Committee.

# Application of King III

| Principle number | Description | Compliance | Responsibility/actions |
|---|---|---|---|
| **Chapter 2: Boards and directors** | | | |
| 2.1 | The board should act as the focal point for and custodian of corporate governance | The board is the focal point and custodian of corporate governance at Esorfranki. In accordance with the Board Charter the board is committed to the highest standards of corporate governance. (See Board Charter on the website.) | The board |
| 2.2 | The board should appreciate that strategy, risk, performance and sustainability are inseparable | The board, in accordance with the Board Charter, and all committee terms of reference reviewed in line with King III, is responsible for aligning the strategic objectives, vision and mission with performance and sustainability considerations. The group's formalised risk management process takes into account the full range of risks including strategic and operational risk, as well as performance and sustainability. | The EXCO and the board evaluate the risk report quarterly |
| 2.3 | The board should provide effective leadership based on an ethical foundation | The board provides effective leadership and is committed to the highest levels of corporate governance as a key driver of sustainability. | Monitored by the Social and Ethics Committee |
| 2.4 | The board should ensure that the company is and is seen to be a responsible corporate citizen | See 2.3 above. | Monitored by the Social and Ethics Committee |
| 2.5 | The board should ensure that the company's ethics are managed effectively | The board has established a Social and Ethics Committee, which is tasked with ensuring that the company's ethics are managed effectively. In addition to ensuring adherence to the Code of Ethics, the Social and Ethics Committee aligns itself with the goals of the United Nations Global Compact Principles, the OECD Guidelines on Corruption and the Employment Equities Act. | The Social and Ethics Committee meets bi-annually to assess compliance and progress with goals |
| 2.6 | The board should ensure that the company has an effective and independent Audit Committee | The Audit Committee is chaired by an independent non-executive director. It further consists of two independent non-executive directors. The board is satisfied with their levels of independence in accordance with directors' mandatory quarterly disclosures. The board is satisfied that the Audit Committee is effective. | Annual self-evaluation performed by Audit Committee in August |

# Application of King III (continued)

| Principle number | Description | Compliance | Responsibility/actions |
|---|---|---|---|
| 2.7 | The board should be responsible for the governance of risk | The board's Risk Committee has conducted an evaluation of governance risk and is satisfied with the effective management of risk. | Quarterly review of risk report and register<br><br>A comprehensive risk management plan was developed |
| 2.8 | The board should be responsible for information technology (IT) governance | The board ensures that IT governance is an integral part of corporate governance and that it is assessed in line with the IT Governance Charter. | IT has been added to the Risk Committee responsibilities and is assessed bi-annually |
| 2.9 | The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards | The board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards within South Africa. Foreign operations will be included in 2014. | The Social and Ethics Committee oversees compliance within South Africa |
| 2.10 | The board should ensure that there is an effective risk-based internal audit | The board ensures that the internal audit function continues to report directly and effectively to the Audit Committee. The internal Audit Charter defines the scope of the internal audit function as assisting the board in assessing the group's risk management and governance processes. | Outsourced internal audit function reports quarterly to the Audit Committee |
| 2.11 | The board should appreciate that stakeholders` perceptions affect the company's reputation | The board of Esorfranki recognises the importance of developing and nurturing positive and stable relationships with key stakeholders as a key driver of business success. The value we place on our stakeholders is articulated in our mission statement. | Board manages direct relationships with key stakeholders through the EXCO<br><br>Stakeholder satisfaction surveys are conducted but irregularly |
| 2.12 | The board should ensure the integrity of the company's integrated report | The board continues to ensure that the integrated report endeavours to provide a true view of the group's commitment to ensuring that financial, social and environmental sustainability permeates the entire business. | Audit Committee and external assurance |
| 2.13 | The board should report on the effectiveness of the company's system of internal controls | The board continuously ensures the soundness of the company's system of internal controls through independent review by internal and external audit. | Audit Committee evaluates progress |

| Principle number | Description | Compliance | Responsibility/actions |
|---|---|---|---|
| 2.14 | The board and its directors should act in the best interests of the company | The board acknowledges its role as a trustee on behalf of the shareholders. In addition to the Code of Ethics, the members of the board are governed by a formal policy in respect of dealing in Esorfranki shares as well as disclosure related to third party transactions. | Policy on insider trading is in place where senior managers are forbidden to trade in Esorfranki shares in closed periods |
| 2.15 | The board should consider business rescue proceeding or other turnaround mechanisms as soon as the company is financially distressed as defined in the Companies Act | The board monitors the company's solvency and liquidity. Business rescue has not been required. | The group's ability to continue as a going concern is assessed annually by the Audit Committee |
| 2.16 | The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board | The Chairman, Dave Thompson, is an independent non-executive Chairman and the roles of CEO and Chairman are clearly defined. | The two roles operate under distinct mandates as approved by the board |
| 2.17 | The board should appoint the CEO and establish a framework for the delegation of authority | The board has appointed Bernie Krone as CEO and a delegation of authority framework is reviewed regularly. | Delegation of authority is approved by the board and reviewed at least annually |
| 2.18 | The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent | The board comprises a majority independent non-executive directors, four independent non-executive directors and two executive directors.<br><br>The composition of the board ensures the balance of power with no single member having the majority influence. | Monitored by the Human Resources and Nominations Committee |
| 2.19 | Directors should be appointed through a formal process | A formal and transparent appointment process is in place.<br><br>One-third of directors retire on a rotational basis. | The Human Resources and Nominations Committee oversees the process and recommends new directors |
| 2.20 | The induction of and ongoing training and development of directors should be conducted through formal processes | New appointees to the board are appropriately familiarised with the company through an induction programme and ongoing training is provided and offered to the directors through membership of the Institute of Directors. Formal introduction and induction programmes are in place. | New directors are issued with the annual report<br><br>Members complete external CPD's<br><br>The group risk officer and CFO are responsible for ensuring directors receive development and training |

REPORTS

| Principle number | Description | Compliance | Responsibility/actions |
|---|---|---|---|
| 2.21 | The board should be assisted by a competent, suitably qualified and experienced company secretary | Ithemba Governance and Statutory Solutions (Pty) Limited is an independent company secretarial practice providing services to numerous JSE-listed companies and was appointed in compliance with Companies Act, 2008, the JSE Listings Requirements and the recommendations of King III. During the next financial year, the board will commence with an annual evaluation of the competence, qualifications and experience of the group company secretary and report on these in future annual reports. | Suitability of company secretary is assessed annually by the board |
| 2.22 | The evaluation of the board, its committees and the individual directors should be performed every year | The Chairman of the company performs an internal board assessment annually. | Board and committees are assisted by the company secretary to complete self-assessments on an annual basis in August<br><br>The previous assessment was positive with no areas of concern identified |
| 2.23 | The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities | The board delegates certain functions without abdicating its own responsibilities to the following committees:<br>■ Audit Committee<br>■ Risk Committee<br>■ Human Resources and Nominations Committee<br>■ Social and Ethics Committee<br>■ EXCO | Members are elected by the board and the committees act in accordance with the approved terms of reference of each committee |
| 2.24 | A governance framework should be agreed between the group and its subsidiary boards | A governance framework between the group and its subsidiary boards is agreed and is in effect. | The framework was approved and agreed by the board during the March 2013 board meeting |

| Principle number | Description | Compliance | Responsibility/actions |
|---|---|---|---|
| 2.25 | Companies should remunerate directors and executives fairly and responsibly | The remuneration philosophy reflects Esorfranki's commitment to best practice. The group's Human Resources and Nominations Committee determines the remuneration policy on executive and senior remuneration in line with the group's remuneration philosophy and strategy. The total remuneration packages of the executive directors and senior management are subject to annual review and benchmarked against external market data, taking into account the size of the company, its market sector and business complexity. A detailed remuneration report is contained in the integrated report on page 52. | Remuneration philosophy in line with previous years and is recommended by the Human Resources and Nominations Committee to the board for approval |
| 2.26 | Companies should disclose the remuneration of each individual director and certain senior executives | The remuneration of directors and prescribed officers is disclosed in the integrated report on pages 52 and 106. | Annual disclosure |
| 2.27 | Shareholders should approve the company's remuneration policy | Shareholders consider and endorse, by way of a non-binding advisory vote, the company's remuneration policy at the annual general meeting. | Policy tabled at annual general meeting |

The full King III checklist is available on the website.

www.esorfranki.co.za

F. A. Sonn

**Dr FA Sonn**
*Risk Committee Chairman*

23 May 2013

REPORTS

# Corporate governance

## 2013 Advancements

- Assessment of independence of non-executive directors
- Self-evaluations performed by the board, committees and individual directors

Esorfranki's board appreciates that effective corporate governance is a key driver of sustainability. As the custodians of Esorfranki's system of corporate governance, the board is committed to the group's stakeholders in this regard.

The principles of good corporate governance permeate the group with a healthy and ethical environment wherein every employee is expected to behave with integrity, honesty and fairness. Policies on corporate governance and ethics are communicated to subsidiary boards by the group risk officer as well as through posters, campaigns and site presentations, newsletters and payslips.

## The board

The board is the highest decision-making body within the group and is responsible and accountable for the performance and affairs of the group, and has full control over all the subsidiaries and divisions of the group. The directors exercise leadership with integrity, based on principles of fairness, accountability, responsibility and transparency. The board is the focal point for good corporate citizenship and acts, expecting all the group's people to follow suit, in accordance with its own as well as Esorfranki's Code of Ethics and Conduct.

The responsibilities of the Chairman and CEO, and those of other non-executive and executive directors, are clearly separated to ensure a balance of power. The Chairman provides leadership to the board in all deliberations, ensuring independent input, and oversees its efficient operation. The CEO is responsible for proposing, updating, implementing and maintaining the strategic direction of Esorfranki as well as ensuring appropriately supervised and controlled daily operations. In this regard the CEO is assisted by the CFO and EXCO. The independent non-executive directors are high merit individuals who objectively contribute a wide range of industry skills, knowledge and experience to the board's decision-making process. (See page 29.) These directors are not involved in the daily operations of the company.

The independence of directors is ascertained on a quarterly basis through formal mandatory declarations of personal interest/s.

Esorfranki's definition of independent is in line with King III recommendations. Non-executive directors are non-permanent employees of the group. In terms of the Memorandum of Incorporation one-third of these directors retire at each annual general meeting. Retiring directors may make themselves available for re-election, provided that they remain eligible as required by the Memorandum of Incorporation and in compliance with the JSE Listings Requirements.

All newly appointed directors are required to have their appointments confirmed at the next annual general meeting.

Accordingly, B Krone and D Thompson will offer themselves for re-election at the upcoming annual general meeting. WC van Zyl stands for confirmation of election.

At any time all independent non-executive directors have unrestricted access to management as well as to the group's external auditors. All directors also have unrestricted access to the advice and services of the company secretary and to company records, information, documents and property to participate meaningfully in board meetings. Further, all directors are entitled to seek independent professional advice on any matters pertaining to the group as they deem necessary and at the group's expense.

### Composition of the board and its sub-committees

The composition of the board is governed by the Human Resources and Nominations Committee Charter and the Board Charter, which comply with King III and the Companies Act. Accordingly, the board comprises a balance of power, with a majority of independent non-executive directors.

The Human Resources and Nominations Committee is responsible for:

- Considering the composition of the board;
- Ensuring that the board and its sub-committees:
  - are reviewed regularly;
  - comprise the requisite mix of skills, experience, diversity and other qualities;
  - align with the strategic direction and requirements of Esorfranki;
  - meet the requirements of sound corporate governance;
- Setting the criteria for board nominations including for the CEO;
- Identifying and recommending nominees to the board, including the CEO;
- Succession planning; and
- Reviewing directors' credentials annually.

The committee is authorised by the board to seek any information required from any employee and may further obtain external legal or other independent professional advice if deemed necessary, at the expense of the group. The committee conducts the process in a formal and transparent manner.

During the year executive director and CFO Wayne van Houten resigned effective 30 September 2012, and was replaced by Wessel van Zyl effective 8 October 2012. Following a selection process including interviews by the Chairman and CEO, cognitive testing and psychometric testing, Wessel was proposed to the EXCO and board and was subsequently appointed.

In the case of new appointments, the CEO (and CFO) informally present an overview of the group's financial results, position and operations as well as information on directors' fiduciary duties and responsibilities. In addition, all new appointees are provided with the group's latest integrated report, interim and annual financial results announcements, recent circulars to shareholders, budget details, company structure, board and sub-committee composition, minutes of the most recent board meeting and a board pack for the upcoming meeting.

Esorfranki continues to actively pursue its objective of appointing a black female independent director to improve representation at board level.

## Board attendance

The board meets quarterly with *ad hoc* special meetings convened as necessary. Details of directors' attendance at board and board committee meetings during the year are set out below:

| | Years of service | Board | Audit Committee | Risk Committee | Human Resources and Nominations Committee | Social and Ethics Committee |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| **B Krone (CEO)** ^ | 31 years, 3 months | 4(4) | 4(4)> | 4(4)> | 2(2)> | 1(1) |
| **WC van Zyl (CFO)** *(appointed 8 October 2012)* | 4 months | 1(1) | 2(2)> | 2(2) | N/A | N/A |
| **W van Houten (CFO)** *(resigned 30 September 2012)* | 6 years, 2 months | 3(3) | 2(2)> | 2(2) | 2(2)> | 1(1) |
| **Andrew Brookstein** *(retired 31 January 2013)* | 1 year 6 months | 2(3) | N/A | 3(3) | N/A | N/A |
| **Independent non-executive directors** | | | | | | |
| **EG Dube** | 6 years, 6 months | 4(4) | 3(4) | 3(4) | N/A | 1(1) |
| **MB Mathabathe** | 4 years, 1 month | 2(4) | N/A | N/A | 0(2) | 0(1) |
| **Dr FA Sonn** ~ # * | 6 years, 6 months | 4(4) | 4(4) | 3(4) | 2(2) | 1(1) |
| **DM Thompson** (Chairman) | 7 years, 2 months | 4(4) | 4(4) | 4(4) | 2(2) | 1(1) |

*> Attended by invitation*
*# Audit Committee Chairman*
*~ Risk Committee Chairman*
** Human Resources and Nominations Committee Chairman*
*^ Social and Ethics Committee Chairman*

REPORTS

www.esorfranki.co.za

## Board Charter

*For a full copy of the Board Charter please refer to Esorfranki's website.*

The role of the board is documented in a formal charter that defines matters reserved for board approval. It is reviewed and updated regularly in accordance with new guidelines and legislation, and during the year was updated to achieve compliance with the Companies Act and JSE Listings Requirements.

The board's primary function, in conjunction with the CEO, is to determine the group's strategy, purpose, values and stakeholders relevant to its business. It also continually monitors the solvency and liquidity of the company as well as any non-financial aspects. Further, it is responsible for the frameworks for the delegation of authority and ensuring compliance with all relevant laws, regulations and codes of best business practice, as well as appropriate stakeholder communication to protect and enhance the company's reputation. The board ensures the integrity of the group's integrated report.

Strategy, risk, performance and sustainability are discussed on an ongoing basis (see 'What impacts the group' above) these elements of the business are fully integrated. In this respect the board is assisted by the Audit and Risk Committees. Further, the board is responsible for the pro-active and effective IT risk management (See 'IT governance').

With the support of the new Social and Ethics Committee, the board will adopt policies in line with the strategy of the company while linked to the performance of individuals.

The Board Charter sets out requirements for the continuing development of directors and an induction programme. Further, annual assessments for the performance of the board, Chairman, individual directors and board committees are required to be conducted by the respective committees and the board.

## Succession planning

Suitable successors have been identified in the company for all senior management positions. Succession planning remains on the risk register of the group for frequent tracking and consideration. The board is responsible for annually reviewing the strategy.

## Ongoing development

The group risk officer and CFO are responsible for ensuring directors receive ongoing development and training. The directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes as well as relevant sector developments which could potentially impact the group and its operations. The newly appointed CFO attended the JSE Induction Programme.

## Share dealings and declarations of personal interest

At present no non-executive director holds more than 5% of the issued share capital of the company or has the ability to control or influence the board. The stakeholdings of independent non-executive directors are not material to their individual personal wealth, and therefore do not compromise their independence. These findings have been discussed by the board and confirmed with the non-executive directors.

Directors are further required to disclose any share dealings in the company's securities to the CFO and company secretary for approval. The CFO, together with the sponsor, ensures that share dealings are released on SENS.

All directors and senior executives with access to financial and any other price-sensitive information are prohibited from dealing in Esorfranki shares during 'closed periods', as defined by the JSE, or while the company is trading under cautionary. The CFO informs all directors by email when the company enters a 'closed period'.

## Company Secretary

The company secretary is appointed and removed by the board. All directors have access to the advice and services of the company secretary. The certificate required to be signed in terms of section 88 of the Companies Act appears on page 64 of the annual financial statements. iThemba Governance and Statutory Solutions Proprietary Limited ("iThemba") is the appointed company secretary and the board is satisfied that the directors of iThemba are appropriately qualified, competent and experienced to fulfil this function. As required in terms of the JSE Listings Requirements, the board has satisfied itself with the competence, qualifications and experience of the company secretary by way of an informal review of these items. A formal assessment will be performed in the next financial year. iThemba is represented by Elise Beukes (B.Proc). She has broad experience in all aspects of commercial law, having spent three years in both litigation and commercial practice as an admitted attorney and four years as corporate legal counsel. She has extensive knowledge on the new Companies Act. It is the responsibility of the company secretary to monitor changes and developments in corporate governance and, together with the executive directors, to keep the board updated in this regard. The board reviews any changes and appropriate measures are implemented to comply with best practice in such a way to support sustainable performance. The company secretary in conjunction with the CFO ensures the company complies with all current and applicable regulations and legislation. In doing so they liaise closely with the company's sponsor.

The company secretary facilitates an annual self-evaluation of the board's performance, mix of skills and individual contributions of directors, its achievements in terms of corporate governance and the effectiveness of its sub-committees. The exercise further includes a review of communications between management and the board as well as between the board and stakeholders. In 2013 the board and committees functioned as intended, according to the reviews.

Each individual director also performed a self-evaluation exercise during the year. The results of these were reviewed by the board, which was satisfied the overall assessment did not diminish in any material respect or degree from the previous assessment.

## Board committees

The board is satisfied that all committees have satisfied their responsibilities during the year.

To ensure transparency, committee chairmen provide the board with a verbal report on recent committee activities at all meetings and the minutes of committee meetings are available. In addition, the committee chairmen or a nominated committee member attends the company's annual general meeting to answer any questions from stakeholders pertaining to the relevant, respective matters.

The terms of reference for each committee is outlined in the formal charter for each committee which is available on the Esorfranki website.

www.esorfranki.co.za

Attendance at board meetings and committee meetings are set out on page 49.

| | EXCO | Audit Committee | Risk Committee | Human Resources and Nominations Committee | Social and Ethics Committee |
|---|---|---|---|---|---|
| **Responsibility** | Operational and financial management of the group<br>To assist with the implementation of corporate governance compliance at group and subsidiary/ divisional levels<br>The internal audit function and group risk manager advise the EXCO on their monitoring of compliance | To oversee financial reporting risks, internal financial controls, fraud risks and IT risks | To provide assistance to the board in ensuring implementation and maintenance of an effective risk environment | To oversee group remuneration and recruitment, though the application of policies and procedures | To provide guidance and a framework for ethical compliance<br>To establish CSI goals and monitor socio-economic development in terms of the UN Global Compact Principles, the OECD regarding corruption, Employment Equities Act and B-BBEE |
| **Frequency meetings** | Monthly | 4 times per year | 4 times per year | 2 times per year | 2 times per year |
| **Self-evaluation** | n/a | Completed and satisfied with the functioning of the committee | Completed and satisfied with the functioning of the committee | Completed and satisfied with the functioning of the committee | To be conducted in August 2013 |
| **Complies with Companies Act, King III and JSE Listings Requirements** | n/a | Yes | Yes | Yes | Yes |

# Remuneration

www.esorfranki.co.za

Further reading

The Human Resources and Nominations Committee assists the board in ensuring that group remuneration and recruitment is aligned with overall business strategy, with the aim of enabling Esorfranki to attract and retain personnel who will create long-term value for all stakeholders.

In accordance with the committee's charter it is also responsible for the oversight of all aspects of human resources and determining the group's human resources strategy. An overview of the group human resources practices is set out below.

## Remuneration

Esorfranki balances remuneration which will attract, incentivise and retain talent in a highly-competitive market with optimising shareholder returns.

The group's executives are remunerated in terms of a remuneration package and are further incentivised for performance against a defined 'weighted average cost of capital' parameter on an EVA modified model. The fixed cost element of remuneration is maintained at modest levels, and no upper limit on performance bonuses is applied, given the balanced scorecard explained below.

The performance of the executive and divisional committee teams are measured against key performance areas which are weighted on a scale of 1 to 5 and based on priorities and importance aligned to:

- Business strategy, objectives and values;
- Sound and effective risk management and tolerable risk parameters and entrepreneurship;
- Performance of the overall group and specific business unit and individual performance against targets; and
- Health, environment, quality and safety targets.

**Review of 2013 packages**

Annual increases to executive remuneration packages are also adjusted for changes in the general cost of living. In setting and approving remuneration levels and structures, remuneration of peers in the same or a similar industry is referenced, taking into account the individual levels of responsibility, performance and job complexity.

The remuneration packages and annual increases are benchmarked against market-related surveys, specifically in 2013 The Deloitte Executive Reward Survey. The survey recommended increases in guaranteed packages for the year of 7%, with CPI at the time of writing the report at 5,6%.

Remuneration packages are calculated on total cost of employment. The total cost of employment packages are the sum total of:

- Basic salary plus travel allowances/ company car plus contribution to retirement funding and risk benefits plus company contribution to healthcare.

Increases are regarded as 'cost of living' increases and not performance increases.

## Executive directors

The CEO's 5,4% increase is still well below average, in line with the CEO's request to the Remuneration Committee. For the most part executive directors, divisional directors and branch managers received average percentage increases.

The remuneration of prescribed officers (excluding Esorfranki's executive directors) for the year ended 28 February 2013 is set out in summary below:

| 28 February 2013 | Position | Salaries* R'000 | Incentives R'000 | Total R'000 |
|---|---|---|---|---|
| RP McLintock | MD Geotechnical | 2 261 | 607 | 2 868 |
| AM Field | Director Geotechnical | 1 936 | 460 | 2 396 |
| D Gibbons | MD Pipelines | 1 916 | 149 | 2 065 |
| W Neuwenhuis | HR Director | 1 834 | 150 | 1 984 |
| M Rippon[1] | MD Civils | 571 | 200 | 771 |

* *Cost-to-company*
[1] *Appointed November 2012*

## Non-executive directors

The attendance fee structure for non-executive directors is set out in detail below:

| Type of fee (per meeting)* | Existing fee in 2012/2013 R | Proposed fee 2013/2014 R |
|---|---|---|
| **Board** | | |
| Chairman | 40 450 | 43 300 |
| Board member | 20 250 | 21 650 |
| **Audit Committee** | | |
| Chairman | 26 950 | 28 850 |
| Member | 13 500 | 14 450 |
| **Risk Committee** | | |
| Chairman | 8 430 | 9 025 |
| Member | 5 620 | 6 000 |
| **Human Resources and Nominations Committee** | | |
| Chairman | 16 855 | 18 050 |
| Member | 11 235 | 12 000 |
| **Social and Ethics Committee** | | |
| Member | 5 620 | 6 000 |

* *Base fee: 50%; attendance fee: 50%*

Directors' emoluments are set out in note 34 to the annual financial statements.

## Remuneration practices across the group

The group subscribes to the generic conditions of employment and wage rates for hourly-paid employees as gazetted in a Sectoral Determination and in collective bargaining agreements. Most conditions of employment are therefore already standardised.

Remuneration practices, conditions of employment and policies and procedures were standardised and communicated to employees via employment contracts and policies. Employees were issued a pocket handbook informing them of disciplinary and grievance procedures and policies.

With effect from 1 January 2011 all permanent salaried employees became members of the group-nominated retirement fund administered by Alexander Forbes. Members of the fund are allowed the flexibility of structuring their retirement and risk benefits based on a life stage model and personal needs. Hourly-paid employees are generally members of the Construction Industry Retirement Fund.

Discovery Health is the group's healthcare service provider and employees have freedom of choice with respect to the specific plan. NMG Consultants and Actuaries has been appointed as the intermediary between the healthcare provider and members.

# Human resources

B-BBEE
Project execution
Skills shortage
SHEQ

## Achievements 2013

- In-house management development programme implemented
- Currently establishing an accredited in-house training centre
- Additional skills training launched for unskilled labour on limited duration contracts

Consistent with the group's vision and strategic business priorities and goals, creating a working environment which attracts the highest calibre employees is seen as a crucial contributor to the group's performance and sustainability.

This is achieved through four key strategic thrusts:

- Buy – attract the best candidates from the external skills pool
- Build – develop employees
- Bind – retain the best performers
- Bounce – remove poor performers

Human resources strategy is addressed at group level by the Human Resources Director, William Neuwenhuis, with day-to-day operational matters decentralised and addressed at divisional level.

The group has 2 059 permanent and 2 595 contract employees, reflecting the nature of an industry where work is project driven and employment is subject to tenders awarded.

## Employee turnover

During the year a total of 554 permanent employees were hired and 193 resigned.

## Labour relations

The group supports every employee's right to belong to a union and demonstrates this through an open and transparent relationship with all unions and their representatives. Esorfranki's management and unions are currently in discussions with regard to formalising organisational rights. Currently, there are two unions active in the Esorfranki group – the National Union of Mineworkers (NUM) and the Building Construction and Allied Workers Union (BCAWU). Union representation throughout the group is BCAWU: 9,05% and NUM: 26,01%. Collectively or jointly the unions represent 35,06% of all hourly-paid employees.

Communication with the unions occurs on a decentralised and *ad hoc* bases.

A number of unprotected work stoppages occurred during the year all related to issues that could be resolved quickly and no serious financial prejudice was experienced.

At the end of 2012, NUM declared a mutual interest dispute on the Mooinooi construction project. The matter could not be resolved either at company level or at the CCMA resulting in all employees on the project embarking on a protected strike with effect from 21 January 2013. Esorfranki approached the Labour Court for an urgent interdict which was granted and the strike was then declared unprotected. The work stoppage lasted for 1½ days before all employees returned to work.

The interdict was subsequently supported and agreed to by NUM and was made a final Order of Court. As a result going forward employers will no longer need to enter any negotiations on substantive issues at company level as all these issues must be referred to the Bargaining Council at industry level.

This was an extremely important judgment for the civil engineering industry as a whole as labour costs for hourly-paid employees are now expected to be standardised going forward.

All hourly-paid employees are covered by the Industry Sectoral Determination which will now also be the basis for the main agreement of the newly established Bargaining Council. Currently the unions have limited representation and, as such, there is no need to enter into recognition agreements. However, management supports structured communication and requested that the unions, irrespective of percentage membership, enter into consultations to agree on their rights and responsibilities throughout the Esorfranki group, at group, divisional, branch and site bases. To date the unions have not responded to the request. There are currently historical recognition agreements in place in Esorfranki Geotechnical and Esorfranki Civils.

The unions with which the group engages are listed below:

| Division | Union | Communication |
|---|---|---|
| Esorfranki Geotechnical | NUM<br>BCAWU<br>Johannesburg – NUM<br>KwaZulu-Natal – NUM<br>Cape Town – BCAWU | Communication with unions are held either at divisional head offices (divisional issues) or site offices (day-to-day operational site issues) |
| Esorfranki Civils | NUM<br>BCAWU | Communication primarily at site level and *ad hoc* meetings at head office |
| Esorfranki Pipelines | BCAWU | Communication between management and shop stewards primarily on site |

# Skills development and training

A key priority in creating a working environment of choice is training and development. The total training spend for the year was R754 176.

During the year training and development was focused in the following areas:

### Management development

Management development at all levels has been identified as a critical focus area. Senior and middle managers have received psychometric testing to determine personal development areas. An in-house management development programme has been developed, with the primary objectives of boosting technical management skills and labour relations. This will also assist in succession and career planning.

### Further study scheme for existing employees

The group provides financial assistance to current employees to obtain or further qualifications in their respective fields. Employees are required to remain employed for a determined period of time relative to the value of the financial assistance granted.

### Learnerships

Esorfranki offers learnerships programmes to employees. Historically the main focus of learnerships was to assist employees working towards mechanical qualifications. The group is now in the process of registering supervisory staff on learnerships, focusing on young candidates from previously disadvantaged groups.

### Skills training (internal)

Skills development is an ongoing and critical focus area throughout Esorfranki to address an ageing workforce and an increase in turnover:

- *Esorfranki Geotechnical*
  As the largest geotechnical employer in South Africa, Esorfranki Geotechnical is particularly at risk. The specialist nature of the work and an extremely small external skills pool create high demand in the industry. Ongoing skills training is therefore critical. Skills transfer is achieved through on-the-job training with older, experienced employees acting in mentorship roles.
- *Esorfranki Civils*
  Esorfranki Civils is in the process of establishing an internal accredited training centre. The primary objective is to increase the internal skills pool as well as to provide skills transfer for employees employed on contracts of limited duration. (See overleaf.)

### Sponsored education

Esorfranki remains committed to its strategy of assisting new entrants into the construction industry by providing them with financial support in the form of bursaries. Specific emphasis is placed on assisting young black female candidates wishing to pursue a career in civil engineering. On qualification the student is required to work back time relative to the value of the bursary.

The group is committed to internal advancement of staff, particularly those from previously disadvantaged groups. This is reflected in the assistance provided in terms of ongoing skills development programmes and the further study scheme. Training objectives and targets are determined at divisional level and are based on the operational requirements of each division. Emphasis is placed on technical and operator training.

The total number of employees who attended training was 1 043, with 95% of trainees from previously disadvantaged groups.

| | Male | | | | Female | | | |
|---|---|---|---|---|---|---|---|---|
| | African | Indian | Coloured | White | African | Indian | Coloured | White |
| Induction | 17 | 2 | 3 | 2 | – | – | – | – |
| Health and safety | 755 | 32 | 17 | 15 | 5 | – | 1 | – |
| Operator recertification | 65 | 2 | 1 | 1 | – | – | – | – |
| Update seminars | – | – | – | 5 | – | – | – | 4 |
| Artisan courses | 2 | – | – | 4 | – | – | – | – |
| Soft skills | – | 1 | – | 3 | – | – | – | 1 |
| In-house training | 91 | 5 | – | 5 | – | – | – | – |
| Supervisors' training | – | – | 2 | 2 | – | – | – | – |
| **Total** | **930** | **42** | **23** | **37** | **5** | **–** | **1** | **5** |

## Skills transfer for employees employed on contracts of limited duration

The duration and nature of projects in Esorfranki Civils dictate that a large component of employees are employed on contracts of limited duration. These employees are usually unskilled labour and, due to the nature of the tasks, limited if any skills transfer takes place on the project. When the project comes to an end, the employee remains unskilled with limited chance of employment. To assist these temporary employees and deepen the wider industry skills pool Esorfranki has employed two trainers to provide skills training not necessarily related to the tasks for which they are employed. This training is offered on a voluntary basis during the employee's own time. Once the training has been successfully completed the employees will be declared competent in skills such as shutterhand, concrete hand, pipe laying and steel fixing and issued with certificates of competence. They are then better positioned to apply for employment, but not necessarily in the group.

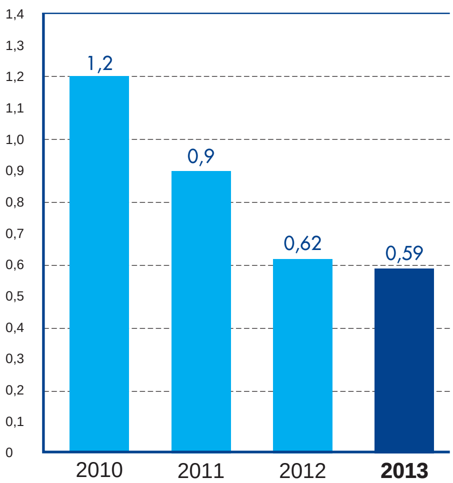
## 2013 Achievements

- Achieved ISO 18001 accreditation
- Environmental management system implemented
- Beginning of roll out of safety management system in Africa
- Safety awards from Master Builders Association at Woodmead site and Umlaas Road

Esorfranki is committed to a safe and healthy working environment and ensures strict compliance with the South African Occupational Health and Safety Act, 1993. To this end inspection and legal compliance audits are performed regularly, safety policy is reviewed and external audits are performed as required in compliance with ISO 9001. In July 2012 Esorfranki achieved ISO 18001 accreditation strengthening its competitive advantage and demonstrating its commitment to the health and safety of its employees. In addition a safety management system was implemented in the rest of Africa.

Continuous scheduled audits by divisional management take place throughout the group as well as client audits.

## Lost Time Injury Frequency Rate (LTIFR)




The group employs a Group Safety Officer who is supported by divisional and site safety officers. A detailed risk assessment is undertaken for each product type and specific tasks. These are then rated according to a matrix and mitigated accordingly. Site staff are trained and each site has a health and safety plan including a method statement and risk assessment. During the year reporting of near misses was implemented.

The following measures are in place to prevent casualties and injuries:

- Divisional Safety Committee;
- Toolbox Talks;
- Safety alerts;
- Health and Safety investigations; and
- Corrective disciplinary action in the event of proven negligence.

The Group Safety Officer is responsible for standardising health and safety procedures and reporting. Extensive health and safety training takes place each year.

Site staff are trained and each site has a health and safety plan including a method statement and risk assessment. The following training took place in 2013:

- Safety, Health and Environmental Management Training Course (SAMTRAC) aimed at equipping the learner with the ability to plan, implement and maintain a SHE Management System
- First aid
- Legal liabilities
- Traffic management

## Environmental impact report

### Achievements

- 1st stage ISO 14001 audit
- Reduced electrical usage by replacing lights with low voltage and switching off when not in use
- Rejuvenated fleet in both Esorfranki Geotechnical and Esorfranki Civils to more fuel-efficient plant

Esorfranki continuously strives to raise employee awareness of the importance of sustainability and monitors and seeks to reduce resource consumption.

We strive to achieve high standards of environmental care in compliance with all applicable legislation and international best practice. The group is targeting ISO 14001 accreditation by 2014. ISO 14000 is a family of standards related to environmental management that exists to help organisations:

- minimise the negative effect of operations and their processes on the environment such as adverse changes to air, water, or land; and
- comply with applicable laws, regulations, and other environmentally-oriented requirements.

## Environmental targets 2013

| | Target | Achieved |
|---|---|---|
| Introduce a waste segregation bin system at head office | June 2012 | ✓ |
| Reduce the use of electricity in all buildings by replacing existing lighting with energy-saving lighting | 10% reduction of electricity | ✓ |
| Perform at least two environmental checks per contract per month | Environment checks per contract per month | ✓ |
| Reduce fuel usage of company's LDVs | 11,5 km/l consumption of all company fleet LDVs | Ongoing |
| Reduce diesel spills as a result of diesel transfers on contracts to <1 per contract | <1 spill per contract | Ongoing |
| Reduce printing paper usage in entire company by 10% | 10% reduction in paper | ✓ |

The group is committed to the ongoing environmental education of its employees.

During the year the following training took place:

- Environmental induction training;
- Environmental officer training (Kusile, N4); and
- Refuelling procedures.

The group provided construction equipment to assist with the annual Gauteng Canoe Union clean-up of the Klipriver in Meyerton.

Esorfranki is also a member of Birdlife South Africa.

### Quality assurance

Esorfranki has an uncompromising commitment to the ongoing improvement of its working procedures and ensures that products and services conform in every respect to the client's requirements. The group's dedication to quality is the foundation of our reputation as market leader.

A rigorous quality assurance programme is in place across all services and the group holds a SABS ISO 9001 certification, which is confirmed through bi-annual SABS audits and internal audits.

# Social and Ethics Committee report

## Advancements 2013

- Negotiations underway for new BEE investment to improve ownership
- Updating Social and Ethics Framework

The Social and Ethics Committee is responsible for:

- Making recommendations on the remuneration policies and practices for the executive directors, senior management and the group in general (see 'Human Resources and Nominations Committee');
- Making recommendations on the group's empowerment credentials;
- Monitoring the group's corporate social responsibilities; and
- Monitoring social and economic development in terms of goals including:
  - United Nations Global Compact Principles;
  - Organisation for Economic Co-operation and Development , an international organisation helping governments tackle the economic, social and governance challenges of a globalised economy, regarding corruption;
  - Employment Equities Act, and B-BBEE;
  - Good corporate citizenship;
  - The environment, health and public safety;
  - Consumer relationships including the company's advertising, public relations, investor relations and compliance with consumer protection laws; and
  - Labour and employment.

## Transformation

Esorfranki's current B-BBEE accreditation is Level 4. The group is targeting Level 3 by H1 2014 and Level 2 by December 2014.

Integrating transformation into business practice is crucial for the sustainability of our business in a country and a continent in which this is a key macro-economic driver. We have a B-BBEE policy and improvement strategy in place to drive transformation in compliance with B-BBEE legislation.

Esorfranki's progress towards meeting the industry transformation charter requirements and the Codes of Good Practice on BEE issued by the Department of Trade and Industry are set out below:

B-BBEE

Skills shortage

SHEQ

| BEE code | Scorecard rating (points) 2012 | Scorecard rating (points) 2013 | Construction Charter's target | Esorfranki 2014 target |
|---|---|---|---|---|
| Ownership | 13,76 | 13,60 | 25 | 15 |
| Management control | 3,04 | 3,04 | 10 | 7 |
| Employment equity | 4,76 | 4,62 | 10 | 5 |
| Skills development | 6,14 | 9,81 | 15 | 13 |
| Preferential procurement | 18,90 | 19,12 | 20 | 20 |
| Enterprise development | 15 | 10,19 | 15 | 15 |
| Socio-economic development | 3,75 | 5 | 5 | 5 |
| **Total** | **65,35** | **65,39** | **100** | **80** |

REPORTS

## Ownership

In line with the Construction Charter's targeted increase from 27,5% to 30,0% ownership by December 2013, the group is considering a B-BBEE transaction and has initiated an evaluation process to ensure that the strategic objectives, diversity and compliance with the codes are aligned and improved. The current proposal includes an increase of 10% in black ownership.

## Management control

To address the management control scorecard shortfall the group has prioritised the appointment of a non-executive black female director.

Further, challenging market conditions and limited recruitment opportunities constrained improvement in black senior management during the year.

## Employment equity

Employment equity is still a focus area following the merger of a number of all the Esorfranki companies. To expedite this and to ensure legal compliance, an external service provider has been appointed and the process should be completed within this financial year.

Employment equity is however a key performance area for all managers and is attended to on a day-to-day basis.

| | Actual 2012/2013 | | Target 2013/2014 | |
|---|---|---|---|---|
| **Category/level** | **Number** | **Percentage of workforce which is black** | **Number** | **Percentage of workforce which is black** |
| Top management | 7 | 0 | 6 | 16 |
| Senior management | 24 | 0 | 23 | 8 |
| Professionally qualified | 89 | 38,2 | 77 | 35,1 |
| Skilled | 303 | 59,7 | 410 | 67,8 |
| Semi-skilled | 499 | 92,2 | 547 | 96,0 |
| Unskilled | 256 | 98,4 | 309 | 98 |
| Disabled | 4 | 100,0 | 0 | 1 |
| **Total** | **1 182** | **78,6** | **1 372** | **83,0** |

* *Percentage of workforce which is black*

Discrimination on any level is not tolerated. Should any such discrimination occur it is immediately and appropriately dealt with in terms of the Code of Ethics and Conduct and attendant disciplinary procedures.

During the year there were no incidents of discrimination reported.

## Gender breakdown

Top management (7)

7

Senior management (24)

24

Professional qualified (89)

80 9

Skilled technical (303)

280 23

Semi-skilled (499)

465 34

Unskilled (256)

256

*Includes South African based permanent employees only at 30 September 2012.*

## Skills development

Please refer to pages 55 and 56 in Human Resources.

Further reading

## Preferential procurement

The group focused during the year on procurement policies and supply chain management. There was a notable improvement in spend with black female and black-owned enterprises. Targets will be maintained to achieve Construction Charter objectives while sustaining a competitive supplier base.

## Enterprise development

The group focus during the year was to drive enterprise development at operational level, developing relationships through contracts. Going forward Esorfranki intends to appoint an external consultant to assist with enterprise development.

Currently there are 11 companies registered. The support ranges from operational support and training to marketing and administrative support.

Esorfranki will continue to focus on developing sustainable enterprises for growth, increasing capacity through contract partnerships and mentorship. Financial assistance will be monitored to ensure that the group is not exposed to undue financial and commercial risk within the realms of the charter.

## Corporate Social Investment (CSI)

Esorfranki supports sustainable social development and upliftment with a particular focus on education in the science and engineering fields.

During the year Esorfranki expanded its sponsorship of the Wits Science Stadium by supporting a second lecture room as part of the University of the Witwatersrand's flagship project. The project facilitates scientific teaching and research enhancing the university's capacity to produce science, engineering and technology graduates and researchers by accommodating up to 3 400 students.

The Science Stadium includes 1 500 lecture seats, more than 1 000 laboratory seats and 750 tutorial room seats and incorporate a world-class laboratory and teaching and tutoring facilities.

The group also supports the KwaZulu-Natal Civils fund, which subsidises salaries of academic staff in the school of Civil Engineering at the University of KwaZulu-Natal in an initiative to improve the standard and quality of graduates from the university.


esorfranki
www.esorfranki.co.za
BB 20 SJ
esorfrank

# Annual financial statements guide

Mine safety compliant bakkies.

## Annual financial statements

# Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of Esorfranki Limited, comprising the statements of financial position at 28 February 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, SAICA Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

## Approval of consolidated and separate annual financial statements

The consolidated and separate annual financial statements of Esorfranki Limited as identified in the first paragraph were approved by the board of directors on 23 May 2013 and signed on their behalf by:

**B Krone**
*Chief Executive Officer*

**W van Zyl**
*Chief Financial Officer*

Germiston
23 May 2013

# Declaration by Company Secretary

We declare that, to the best of our knowledge, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the South African Companies Act, 2008, and that all such returns are true, correct and up to date.

**iThemba Governance and Statutory Solutions (Pty) Limited**
*Company secretary*

Germiston
23 May 2013

# Audit Committee report

for the year ended 28 February 2013

The information below constitutes the report of the Audit Committee in respect of the year under review, as required by section 94 of the Companies Act.

In compliance with the latest regulations, a separate Audit Committee has been formally appointed by the shareholders.

The Audit Committee is chaired by Dr FA Sonn. It further consists of two independent non-executive directors, DM Thompson and EG Dube. The board is satisfied with their levels of independence in accordance with directors' mandatory quarterly disclosures of personal interests. Although DM Thompson as Chairman of the board should not be a member of the Audit Committee in terms of the King III Report, the directors believe this is ameliorated by his qualification as a Chartered Accountant (SA) and the limited number of available non-executive directors to take his place.

The committee's charter promotes the overall effectiveness of corporate governance in accordance with the King III Report. Further it provides for the monitoring of the company's compliance with disclosure requirements, relevant laws and regulations and its own code of conduct. The Audit Committee charter is reviewed annually.

The committee met four times during the year. Details of directors' attendance at Audit Committee meetings are set out on page 49. Other independent non-executive directors, the CEO, the CFO and representatives of the external auditors may attend by invitation. Any member of the committee or the external auditors may request a meeting which is then arranged in consultation with the committee's chairman. The committee chairman provides feedback at annual general meetings.

In fulfilling its function, the committee specifically oversees:

- financial reporting risks;
- internal financial controls;
- fraud risks; and
- IT risks.

In terms of the external auditors, KPMG, the committee has:

- considered their appointment;
- reviewed their fees;
- reviewed their independence, objectivity and effectiveness; and
- approved non-audit services provided to the company such as internal audit services, tax services, corporate restructuring and merger and acquisition advice.

Any services or the extent thereof are assessed to ascertain whether they are likely to conflict with or impair the independence of the external auditors. Other than training and internal audit services, no non-audit services were provided by the external auditors during the year. The external auditors have unrestricted access to the Audit Committee and its chairman at all times.

The committee approved the structure of and appointments to the internal audit function and its performance, as well as reviewed the internal audit report.

With regards to the internal audit services provided by KPMG, the Audit Committee implements safeguards to eliminate or reduce independence threats by applying the independence rules-based approach. The principles to evaluate perceived independence issues are also important and in general terms, the aim is to ensure that external auditors do not:

- audit their own work;
- make management decisions for the company;
- create a mutuality of interest; or
- find themselves in an advocacy position.

The Audit Committee also oversaw the integrated reporting and assurance model, recognising the importance of the company's B-BBEE scorecard. The committee further ensures that sustainability reporting does not conflict with financial information and recommends the integrated report for board approval.

After reviewing the internal financial controls of the group, the committee has established that nothing has come to the attention of the committee to indicate that the internal financial controls were not operating effectively during the year.

The Audit Committee reviewed all interim and annual financial statements before submission to the board and focused on:

- changes in accounting policies and practices;
- major judgemental areas;
- significant adjustments resulting from the audit;
- going concern statement;
- compliance with accounting standards, stock exchange and statutory requirements; and
- providing accurate financial information.

During the year the performance and independence of the Audit Committee was evaluated by the Company Secretary, the findings of which were reviewed by the board. As a whole, the findings indicated the committtee adds value to the group's overall governance process. However, the membership of the board chairman was identified as a problematic area in terms of the King III Report.

The Audit Committee has satisfied itself that KPMG and Mr FHC von Eckardstein, the designated auditor, are independent of the company.

In terms of the JSE Listings Requirements, the Audit Committee has considered and satisfied itself of the appropriateness of the expertise and experience of the CFO, Wessel van Zyl.

The Audit Committee recommended the annual financial statements for the year ended 28 February 2013, for approval, to the board. The board has subsequently approved the annual financial statements which will be open for discussion at the forthcoming annual general meeting.

**Dr FA Sonn**
*Audit Committee Chairman*

Germiston
23 May 2013

# Directors' report

The directors have pleasure in presenting their integrated report which forms part of the annual financial statements of the company and the group for the year ended 28 February 2013 which have been audited in compliance with the Companies Act. The preparation of these annual financial statements was supervised by the CFO, Wessel van Zyl.

## Nature of business

The nature of the group's business is set out in the group profile on page 5 of the integrated report, of which this Directors' report forms part.

## Financial results

Consolidated revenue increased to R2,326 billion from R1,772 billion in the previous year. Earnings before interest, depreciation, impairments, amortisations and taxation ("EBITDA") increased by 103% to R269,3 million from R132,7 million. Headline earnings per share ("HEPS") also increased by 230,6% to 20,5 cents per share (2012: 6,2 cents). Net asset value ("NAV") per share increased to 280,3 cents (2012: 241,5 cents) based on the number of shares in issue at year-end, net of treasury shares.

Further comment is set out in the CFO's report and detail is set out in the annual financial statements and accompanying notes.

## Property, plant and equipment

During the year, the group acquired property, plant and equipment amounting to R193,9 million (2012: R257,7 million). The capital expenditure programme is detailed in note 43 to the annual financial statements.

## Dividend declaration

In deciding on the dividend, the board has considered a number of factors which include the solvency and liquidity of the company following the payment of a dividend, future availability of credit and the sustainability of the construction market. Further, the board considers it prudent to conserve cash, which will in turn have a positive effect on future profits.

The board has therefore decided that no dividend will be paid in the current year (2012: Nil). It remains the policy of the group to review the dividend annually in light of solvency, liquidity, cash flow, gearing and capital requirements.

## Share capital

Details of the authorised and issued shares are set out in note 14 to the annual financial statements, and the analysis of shareholders on page 120. There were no changes to the authorised share capital during the year.

All authorised but unissued shares have been placed under the control of the directors until the upcoming annual general meeting, at which the directors propose that the authority granted to them to control the unissued shares be renewed (see Notice of Annual General Meeting).

## Share option scheme

The board has resolved and the JSE has accepted, that this scheme will be discontinued and no further options will be granted after the expiration of the current issued options. Since listing in March 2006, 14 250 000 options have been granted (equivalent to 3,6% of the issued share capital). These options are exercisable in 20% tranches over a five-year period from the date of granting the option. A total of 819 402 options (2012: 698 211) were exercised during the year.

Details of the options granted but not exercised are:

| Date option granted | Expiry date | Number of ordinary shares | Subscription price |
|---|---|---|---|
| 14 March 2006 | 13 March 2012 | 106 950 | R1,00 |
| 30 November 2006 | 13 March 2012 | 735 576 | R1,60 |
| 14 December 2009 | 13 March 2014 | 5 424 570 | R2,50 |

ANNUAL FINANCIAL STATEMENTS

# Directors' report (continued)

## Interest in subsidiaries

Details of the company's subsidiaries are shown in notes 42 and 45 to the annual financial statements.

## Special resolutions in subsidiaries

In 2012 special resolutions were passed in subsidiary companies, which authorised these companies to provide direct or indirect financial assistance as contemplate in section 45 of the Companies Act, to any one or more related or inter-related companies. This authority is valid for a period of two years.

## Directors

The directors of the company at the date of this integrated report are set out below:

**Executive directors**
B Krone (CEO)
WC van Zyl (CFO) – Appointed 8 October 2012

**Independent non-executive directors**
EG Dube
MB Mathabathe
Dr FA Sonn
DM Thompson

Mr W van Houten resigned with effect from 30 September 2012, and Mr AC Brookstein retired on 31 January 2013. Messrs B Krone and DM Thompson retire at the upcoming annual general meeting and, being eligible, will stand for re-election. In addition all new directors are subject to confirmation of election by shareholders at the first annual general meeting after their initial appointment. Accordingly, Mr WC van Zyl will stand for confirmation of election at the upcoming annual general meeting.

## Company secretary

iThemba Governance and Statutory Solutions (Pty) Limited is the company secretary. The company's business and postal addresses are set out on the inside back cover of this integrated report.

## Directors' interests

The directors of the company held the following direct and indirect interests in the company at year-end:

| | Direct shareholding | | Indirect shareholding | | Total | |
|---|---|---|---|---|---|---|
| Directors' shareholding | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| EG Dube | **–** | – | **7 659 464** | 7 659 464 | **7 659 464** | 7 659 464 |
| MB Mathabathe | **2 705 404** | 4 000 000 | **–** | – | **2 705 404** | 4 000 000 |
| Dr FA Sonn | **–** | – | **–** | 3 975 000 | **–** | 3 975 000 |
| DM Thompson | **50 000** | – | **50 000** | 50 000 | **100 000** | 50 000 |
| B Krone | **13 509 394** | 13 509 394 | **–** | – | **13 509 394** | 13 509 394 |
| W van Houten* | **762 908** | 762 908 | **–** | – | **762 908** | 762 908 |
| AC Brookstein** | **6 180 000** | 6 180 000 | **–** | – | **6 180 000** | 6 180 000 |

* *Resigned 30 September 2012*
** *Retired 31 January 2013*

There have been no changes in the directors' interests since year-end up until the date of this report.

## Directors' emoluments

The remuneration of directors is set out in note 34 to the annual financial statements.

## Auditors

KPMG Inc. will continue in office in accordance with section 90(6) of the Companies Act. The audit partner is Mr FHC von Eckardstein.

## Events after reporting date

The board of directors is not aware of any material matters or circumstances arising since year-end and the date of this report.

# Independent auditor’s report

## To the shareholders of Esorfranki Limited

We have audited the consolidated and separate financial statements of Esorfranki Limited, which comprise the statements of financial position at 28 February 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 70 to 119.

## Directors’ responsibility for the financial statements

The company’s directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Esorfranki Limited at 28 February 2013, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

## Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 28 February 2013, we have read the Directors’ Report, the Audit Committee’s Report and the Company Secretary’s Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

**KPMG Inc.**
*Registered Auditor*

*Per* FHC von Eckardstein
Chartered Accountant (SA)
Registered Auditor
*Director*

23 May 2013

KPMG Crescent
85 Empire Road
Parktown
Johannesburg
2193

# Statements of financial position

at 28 February 2013

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2013<br>R'000 | 2012<br>R'000 | 2013<br>R'000 | 2011<br>R'000 |
| **Assets** | | | | | |
| **Non-current assets** | | **1 237 461** | 1 151 181 | **678 466** | 679 632 |
| Property, plant and equipment | 4 | **822 678** | 737 312 | **–** | – |
| Intangible assets | 5 | **86 336** | 88 226 | **–** | – |
| Goodwill | 6 | **305 715** | 305 715 | **–** | – |
| Financial assets at fair value through profit or loss | 7 | **3** | 1 291 | **–** | – |
| Deferred tax asset | 18 | **22 729** | 18 637 | **–** | – |
| Investments in subsidiaries | 8 | **–** | – | **678 466** | 679 632 |
| **Current assets** | | **1 006 320** | 665 288 | **393 997** | 20 357 |
| Inventories | 9 | **69 721** | 20 622 | **–** | – |
| Non-current assets held for sale | 10 | **–** | 3 293 | **–** | – |
| Other investments | 11 | **27 726** | – | **–** | – |
| Unsecured loans | 12 | **–** | – | **388 777** | 20 335 |
| Taxation | | **14 513** | 15 617 | **–** | – |
| Trade and other receivables | 13 | **826 713** | 529 103 | **5 213** | – |
| Cash and cash equivalents | 31 | **67 647** | 96 653 | **7** | 22 |
| **Total assets** | | **2 243 781** | 1 816 469 | **1 072 463** | 699 989 |
| **Equity and liabilities** | | | | | |
| **Share capital and reserves** | | **1 053 262** | 937 432 | **869 426** | 635 754 |
| Share capital and premium | 14 | **571 300** | 592 045 | **607 445** | 608 232 |
| Equity compensation reserve | | **18 606** | 16 188 | **18 606** | 16 188 |
| Foreign currency translation reserve | | **3 850** | (21 395) | **–** | – |
| Retained earnings | | **459 506** | 350 594 | **243 375** | 11 334 |
| **Non-current liabilities** | | **540 326** | 316 658 | **202 500** | – |
| Secured borrowings | 15 | **368 507** | 179 911 | **202 500** | – |
| Preference shares | 16 | **21 000** | – | **–** | – |
| Post-retirement benefits | 17 | **1 913** | 1 806 | **–** | – |
| Deferred tax liability | 18 | **148 906** | 134 941 | **–** | – |
| **Current liabilities** | | **650 193** | 562 379 | **537** | 64 235 |
| Current portion of secured borrowings | 15 | **79 481** | 105 923 | **–** | – |
| Unsecured loans | 12 | **–** | – | **–** | 63 482 |
| Bank overdraft | 31 | **34 059** | 3 047 | **–** | – |
| Taxation | | **4 508** | 15 872 | **–** | – |
| Provisions | 19 | **38 329** | 16 350 | **–** | – |
| Trade and other payables | 21 | **493 816** | 421 187 | **537** | 753 |
| **Total equity and liabilities** | | **2 243 781** | 1 816 469 | **1 072 463** | 699 989 |

# Statements of comprehensive income

for the year ended 28 February 2013

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Revenue | 22 | **2 325 958** | 1 771 692 | **239 707** | – |
| Cost of sales | | **(1 950 798)** | (1 549 955) | **–** | – |
| Gross profit | | **375 160** | 221 737 | **239 707** | – |
| Other income | 23 | **27 239** | 1 705 | **218** | 218 |
| Operating expenses | | **(133 134)** | (90 786) | **(4 300)** | (2 309) |
| Profit/(loss) before interest, tax, amortisation, impairments and depreciation | 24 | **269 265** | 132 656 | **235 625** | (2 091) |
| Depreciation, impairments and amortisation | | **(118 271)** | (79 510) | **(3 584)** | (286 488) |
| Results from operating activities | | **150 994** | 53 146 | **232 041** | (288 579) |
| Finance income | 25 | **42 369** | 49 726 | **12 805** | – |
| Finance costs | 25 | **(86 684)** | (73 233) | **(12 805)** | (2) |
| **Profit/(loss) before income tax** | | **106 679** | 29 639 | **232 041** | (288 581) |
| Income tax (expense)/income | 26 | **(18 969)** | (11 423) | **–** | 553 |
| **Profit/(loss) after tax** | | **87 710** | 18 216 | **232 041** | (288 028) |
| **Other comprehensive income:** | | | | | |
| Foreign currency translation differences for foreign operations | | **30 157** | 13 655 | **–** | – |
| Actuarial loss on post-retirement benefits | | **(97)** | (73) | **–** | – |
| Income tax on translation differences | | **(4 912)** | (1 862) | **–** | – |
| **Other comprehensive income for the period, net of tax** | | **25 148** | 11 720 | **–** | – |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the company | | **112 858** | 29 936 | **232 041** | (288 028) |
| Basic earnings/(loss) per share (cents) | 27 | **23,5** | 4,7 | **58,7** | (73,1) |
| Diluted earnings/(loss) per share (cents) | 27 | **23,5** | 4,7 | **58,7** | (73,1) |

# Statements of changes in equity

for the year ended 28 February 2013

| Group | Share capital R'000 | Share premium R'000 | Equity compen-sation reserve R'000 | Foreign currency translation reserve R'000 | Retained earnings R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|
| Balance at 1 March 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 difference net of taxation | – | – | – | 11 793 | – | 11 793 |
| Post-retirement benefit adjustment | – | – | – | – | (73) | (73) |
| **Total other comprehensive income** | – | – | – | 11 793 | (73) | 11 720 |
| **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 |
| Balance at 1 March 2012 | **388** | **591 657** | **16 188** | **(21 395)** | **350 594** | **937 432** |
| Profit for the year | **–** | **–** | **–** | **–** | **87 710** | **87 710** |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation difference net of taxation | **–** | **–** | **–** | **25 245** | **–** | **25 245** |
| Post-retirement benefit adjustment | **–** | **–** | **–** | **–** | **(97)** | **(97)** |
| **Total other comprehensive income** | **–** | **–** | **–** | **25 245** | **(97)** | **25 148** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **25 245** | **87 613** | **112 858** |
| Transactions with owners, recorded directly in equity | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Share issue expenses | **–** | **(787)** | **–** | **–** | **–** | **(787)** |
| Share-based payment transactions | **–** | **–** | **2 418** | **–** | **–** | **2 418** |
| Treasury shares – options exercised | **1** | **1 340** | **–** | **–** | **–** | **1 341** |
| Treasury shares acquired (see note 30) | **(13)** | **(21 286)** | **–** | **–** | **21 299** | **–** |
| **Total contributions by and distributions to owners** | **(12)** | **(20 733)** | **2 418** | **–** | **21 299** | **2 972** |
| **Balance at 28 February 2013** | **376** | **570 924** | **18 606** | **3 850** | **459 506** | **1 053 262** |

# Statements of changes in equity (continued)

for the year ended 28 February 2013

| Company | Share capital R'000 | Share premium R'000 | Equity compen-sation reserve R'000 | Common control reserve R'000 | Retained earnings R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|
| Balance at 1 March 2011 | 302 | 407 930 | 14 023 | 261 107 | 38 255 | 721 617 |
| Loss for the year | – | – | – | – | (288 028) | (288 028) |
| Transfer to retained earnings | – | – | – | (261 107) | 261 107 | – |
| **Total comprehensive income for the year** | – | – | – | (261 107) | (26 921) | (288 028) |
| Transactions with owners, recorded directly in equity | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Rights issue | 93 | 199 907 | – | – | – | 200 000 |
| Share-based payment transactions | – | – | 2 165 | – | – | 2 165 |
| **Total contributions by and distributions to owners** | 93 | 199 907 | 2 165 | – | – | 202 165 |
| Balance at 29 February 2012 | 395 | 607 837 | 16 188 | – | 11 334 | 635 754 |
| Balance at 1 March 2012 | **395** | **607 837** | **16 188** | **–** | **11 334** | **635 754** |
| Profit for the year | **–** | **–** | **–** | **–** | **232 041** | **232 041** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **–** | **232 041** | **232 041** |
| Transactions with owners, recorded directly in equity | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Share issue expenses | **–** | **(787)** | **–** | **–** | **–** | **(787)** |
| Share-based payment transactions | **–** | **–** | **2 418** | **–** | **–** | **2 418** |
| **Total contributions by and distributions to owners** | **–** | **(787)** | **2 418** | **–** | **–** | **1 631** |
| **Balance at 28 February 2013** | **395** | **607 050** | **18 606** | **–** | **243 375** | **869 426** |

ANNUAL FINANCIAL STATEMENTS

# Statements of cash flow

for the year ended 28 February 2013

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| **Cash flows from operating activities** | | **(32 853)** | 124 205 | **230 196** | (9 697) |
| Cash receipts from customers | | **1 995 185** | 1 541 006 | **239 707** | – |
| Cash paid to suppliers and employees | | **(1 960 683)** | (1 385 546) | **(9 511)** | (10 248) |
| Cash generated by/(utilised in) operations | 28 | **34 502** | 155 460 | **230 196** | (10 248) |
| Finance income | | **42 369** | 49 726 | **12 805** | – |
| Finance costs | | **(86 684)** | (73 090) | **(12 805)** | (2) |
| Taxation paid | 29 | **(23 040)** | (7 891) | **–** | 553 |
| **Cash flows from investing activities** | | **(210 980)** | (256 057) | **–** | – |
| Additions to property, plant and equipment | | **(193 930)** | (257 722) | **–** | – |
| Proceeds on disposal of property, plant and equipment | | **39 132** | 8 872 | **–** | – |
| Acquisition of business, net of cost | 30 | **(28 456)** | – | **–** | – |
| Investments acquired | | **(27 726)** | (7 207) | **–** | – |
| **Cash flows from financing activities** | | **183 815** | 162 320 | **(230 211)** | 9 663 |
| Decrease in unsecured loans | | **–** | – | **(431 924)** | (190 337) |
| Increase/(decrease) in secured borrowings | | **162 154** | (40 209) | **202 500** | – |
| Preference shares issued | | **21 000** | – | **–** | – |
| Proceeds from share issue net of issue expenses | | **554** | 202 596 | **(787)** | 200 000 |
| Post-retirement benefits paid | | **107** | (67) | **–** | – |
| Net increase/(decrease) in cash and cash equivalents | | **(60 018)** | 30 468 | **(15)** | (34) |
| Net cash and cash equivalents at beginning of year | | **93 606** | 63 138 | **22** | 56 |
| **Cash and cash equivalents at end of year** | 31 | **33 588** | 93 606 | **7** | 22 |

# Notes to the annual financial statements
for the year ended 28 February 2013

## 1. General information

Esorfranki Limited (the "company") is a company incorporated and domiciled in the Republic of South Africa. The address of the company's registered office is 30 Activia Road, Activia Park, Germiston. The consolidated financial statements of the company as at and for the year ended 28 February 2013 comprise the company and its subsidiaries (together referred to as the "group" and individually as "group entities") and the group's interest in jointly controlled entities. The group is primarily involved in the specialist geotechnical and civil engineering sector in South Africa and Southern Africa (Refer notes 2.22 and 44).

## 2. Presentation of annual financial statements

The consolidated annual financial statements and annual financial statements have been prepared in accordance with International Financial Reporting Standards, SAICA Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, in the manner required by the Companies Act, 71 of 2008, of South Africa and the JSE Listings Requirements. The consolidated annual financial statements and annual financial statements have been prepared on the historical cost basis, except for certain financial instruments at fair value and incorporate the principal accounting policies set out below. The accounting policies are consistent with the previous year and applied consistently by group entities. The methods used to measure the fair value of these financial instruments are discussed further in note 40.

### 2.1 Functional and presentation currency

These consolidated annual financial statements and annual financial statements are presented in Rands ("R"), which is the company's functional currency and the group's presentation currency. All financial information presented in Rands has been rounded to the nearest thousand ("R'000").

### 2.2 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key assumptions and judgements made concerning the future and other sources of estimation uncertainty at the reporting date that could have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year are:

*Revenue*
During the initial stages of a construction contract it is often the case that the contract outcome cannot be estimated reliably. When contract revenue and the costs to complete the contract can be measured reliably, profit is recognised by reference to the stage of completion of the activity of the contract. However, the reliability of current estimates of future revenue and expenses is a critical factor when assessing the profit to be recognised on a yet uncompleted contract (Refer notes 13 and 21).

*Options granted*
Management used the Black-Scholes model to determine the value of the share options at issue date. Additional details regarding the estimates are included in note 33.

*Impairment testing*
Management used the value-in-use method to determine the recoverable amount of goodwill. Additional disclosure of these estimates is included in note 6.

*Provisions*
Provisions raised were determined by management on estimates based on the information available. Additional disclosures of these estimates of provisions are included in note 19.

*Post-retirement benefits*
Post-retirement benefits are provided to certain retired employees. Independent actuaries were tasked with calculating the value of the group's obligations. Further information on the significant assumptions are shown in note 17.

*Property, plant and equipment*
Management has made certain estimations with regard to the determination of estimated useful lives and residual values of items of property, plant and equipment, as discussed further in note 2.3.

*Contingent liabilities*
Management continually applies its judgement to advice it receives from attorneys, advocates and other advisors in assessing if an obligation is probable, possible, or remote. This judgement application is used to determine if the obligation is recognised as a provision, disclosed as a contingent liability or no disclosure is made.

## 2. Presentation of annual financial statements (continued)

### 2.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- It is probable that future economic benefits associated with the item will flow to the company; and
- The cost of the item can be measured reliably.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of items, other than land, to their residual values, over their estimated useful lives, using a method that reflects the pattern in which the assets' future economic benefits are expected to be consumed.

*Subsequent costs*
The group recognises in the carrying amount an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the group and the cost of such an item can be measured reliably. Any remaining carrying amount of the replaced part is written off to profit or loss as incurred.

When an item comprises major components with different useful lives or residual values, the components are accounted for as separate items (major components) of property, plant and equipment and depreciated over their estimated useful lives.

Methods of depreciation, useful lives and residual values are reviewed annually at each reporting date. The following methods and estimated useful lives were applied during the current and previous periods:

| Item | Method | Useful life |
|---|---|---|
| Land | Not depreciated | Indefinite |
| Buildings | Straight line | 50 years |
| Plant and equipment | Straight line | 5 – 15 years |
| Motor vehicles | Straight line | 4 – 8 years |
| Furniture and fittings | Straight line | 1 – 10 years |
| Computers | Straight line | 1 – 3 years |

The depreciation charge for each period is recognised in profit or loss.

Derecognition occurs when an item of property, plant and equipment is disposed of, or when it is no longer expected to generate any future economic benefits.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item.

*Non-current assets held-for-sale*
Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets (or components of a disposal group) are re-measured in accordance with the group's accounting policies. On initial classification as held-for-sale and subsequently, non-current assets or disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses are included in profit or loss and are allocated first to goodwill and then to the remaining assets and liabilities on a pro rata basis (with the exception of inventories, financial assets, deferred taxation assets, and employee benefit assets, which continue to be measured in accordance with the group's accounting policies). Gains are not recognised in excess of any cumulative impairment loss. Gains and losses on re-measurement are recognised in other expenses in the statement of comprehensive income.

Intangible assets and property, plant and equipment once classified as held-for-sale are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held-for-sale or distribution.

## 2. Presentation of annual financial statements (continued)

### 2.4 Intangible assets

An intangible asset is recognised when:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the company; and
- The cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost unless acquired as part of a business combination, in which case the cost of the intangible assets is their fair value at the date of acquisition. Research costs are recognised as an expense when they are incurred. Development costs are capitalised when they meet the following criteria:

- It is feasible to complete the asset so that it will be available for use or sale;
- There is an intention to complete and use or sell it;
- There is an ability to use or sell it;
- It will generate probable future economic benefits;
- There are available technical, financial and other resources to complete the development and to use or sell the asset; and
- The expenditure attributable to the asset during its development can be measured reliably.

Internally generated brands and items similar in substance are not recognised as intangible assets.

*Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided on indefinite useful life intangible assets. These are tested annually for impairment and impaired if necessary.

Finite useful life intangible assets are amortised on a straight-line basis over their estimated useful life, from the date that they are available for use. They are only tested for impairment when an indication of impairment exists. Amortisation is recognised in profit or loss. Methods of amortisation and useful lives are reviewed annually at each reporting date.

### 2.5 Goodwill

For acquisitions on or after 1 March 2010, the group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Goodwill arising from business combinations is subsequently measured at cost less accumulated impairment losses (refer to impairment accounting policy 2.8). Goodwill is not amortised.

### 2.6 Investments in subsidiaries

In the company's annual financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- any costs directly attributable to the purchase of the subsidiary.

For group and company any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

## 2. Presentation of annual financial statements (continued)

### 2.7 Basis of consolidation

*Subsidiaries*

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group.

*Acquisitions from entities under common control*

At acquisition, business combinations arising from transfers of interest in entities that are under the control of the shareholder that controls the group are accounted for in the period in which the transfer of interest occurs and comparatives are not restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the group controlling shareholder's consolidated financial statements.

*Jointly controlled operations*

Jointly controlled operations involve the use of assets and other resources of the venturers in completing defined construction contracts. The group accounts for the assets it controls, the liabilities and expenses that it incurs and its share of the income that it earns from the construction contracts.

*Special purpose entities*

A special purpose entity ("SPE") is consolidated if, based on an evaluation of the substance of its relationship with the group and the SPEs risks and rewards, the group concludes that it controls the SPE. SPEs controlled by the group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to risks incident to the SPEs' activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

*Changes in interests without a loss in control*

When there is a change in the interest in a subsidiary after control is obtained, that does not result in a loss in control, the difference between the fair value of the consideration transferred and the amount by which the non-controlling interest is adjusted is recognised directly in the statement of changes in equity (in the premium on non-controlling interest reserve). No goodwill is recognised on such transactions.

*Loss of control*

Upon the loss of control, the group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

*Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 2.8 Impairment of assets

*Financial assets*

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

## 2. Presentation of annual financial statements (continued)

### 2.8 Impairment of assets (continued)

All impairment losses are recognised in profit or loss and reflected in an allowance account. Interest on impaired assets continues to be recognised.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

*Non-financial assets*

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets are grouped together in the smallest group of assets that generate cash flows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

### 2.9 Financial instruments

*Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, including retention receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

*Non-derivative financial assets*

The group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the group becomes a party to the contractual provisions of the instrument.

*Non-derivative financial liabilities*

The group initially recognises debt securities and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the group becomes a party to the contractual provisions of the instrument.

*Offset*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Accounting for finance income and costs is discussed in note 2.18.

## 2. Presentation of annual financial statements (continued)

### 2.9 Financial instruments (continued)

*Financial assets at fair value through profit or loss*

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

*Loans and receivables*

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

*Financial liabilities*

Financial liabilities are measured at amortised cost using the effective interest method.

*Derivative financial instruments*

The group holds derivative financial instruments to economically hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

*Separable embedded derivatives*

Changes in the fair value of separable embedded derivatives are recognised in profit or loss.

*Other non-trading derivatives*

When a derivative financial instrument is not designated as a hedging instrument in a qualifying hedge relationship, all changes in its fair value are recognised in profit or loss.

### 2.10 Share capital and reserves

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Repurchase of share capital (treasury shares)*

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

*Equity compensation reserve*

The equity compensation reserve comprises equity settled share-based payments, which have been amortised over the vesting period of share options granted to employees.

*Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the company's net investment in a foreign operation.

### 2.11 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and are not recognised on the group's statement of financial position.

## 2. Presentation of annual financial statements (continued)

### 2.11 Leases (continued)

*The group as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The group as lessee*

Assets held under finance leases are recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments discounted using the interest rate implicit in the lease contract. Any initial direct costs incurred are added to the amount recognised as an asset. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are recognised in profit or loss in accordance with the group's general policy on finance income and costs (note 2.18).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. Contingent rent is recognised as an expense in the period in which it is incurred.

### 2.12 Inventories

Inventories are measured at the lower of cost or net realisable value. The cost of inventories comprises all costs of purchase, costs of production or conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of all inventories is assigned using the first-in first-out method, as all inventories have a similar nature and use to the group.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 2.13 Financial guarantees

Financial guarantees are contracts that require the company to make specified payments to reimburse the holder for a loss it incurs because a group company fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within trade and other payables.

### 2.14 Revenue

*Construction contracts*

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be measured reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

## 2. Presentation of annual financial statements (continued)

### 2.15 Income tax

Income tax expense comprises current and deferred tax. An income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their current tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 2.16 Provisions

A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

*Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

*Restructuring costs*

Provisions for restructuring are made if the group has a formal plan for restructuring identifying:

- the business or part thereof;
- the locations affected;
- the location, function, and approximate number of employees that will be compensated for terminating their services;
- the estimated expenditures;
- when the plan will be implemented; and
- has raised a valid expectation that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

### 2.17 Dividend received

Dividend income is recognised in profit or loss on the date that the company's right to receive payment is established.

### 2.18 Finance income and costs

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial liabilities at fair value through profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

## 2. Presentation of annual financial statements (continued)

### 2.19 Foreign currencies

*Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

*Foreign operations*

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

All assets and liabilities of foreign operations, including fair value adjustments and goodwill arising on acquisition, are translated at the rate of exchange ruling at the reporting date.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in other comprehensive income in the foreign currency translation reserve (“FCTR”).

### 2.20 Share-based payment transactions

Goods acquired or services received in a share-based payment transaction are recognised when the goods are obtained or as the services are received. A corresponding increase in the equity compensation reserve is recognised if the goods or services were acquired in an equity-settled share-based payment transaction.

When the goods received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received are measured directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, their value and the corresponding increase in equity, indirectly are measured by reference to fair value of the equity instruments granted.

Share-based payment arrangements in which the group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the group.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability based on the fair value of the shares using a suitable valuation model. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

For share-based payment transactions in which the terms of the arrangement provide either the company or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the components of that transaction are recorded as a cash-settled share-based payment transaction if, and to the extent that, a liability to settle in cash or other assets has been incurred, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

## 2. Presentation of annual financial statements (continued)

### 2.20 Share-based payment transactions (continued)

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity (in the equity compensation reserve), over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

### 2.21 Employee benefits

*Short-term employee benefits*

The cost of short-term employee benefits are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service provided by the employee and the obligation can be estimated reliably.

*Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due to be settled. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Payments made to industry-managed retirement benefit schemes (or State plans) are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

*Post-retirement medical aid benefits*

The group contributes 50% of post-retirement medical aid costs of certain retired employees of Franki. The projected unit credit method is used to determine the present value of the defined benefit obligations and the related current service cost and, where applicable past service cost.

The group has unfunded obligations to provide these post-retirement benefits. The estimated liability is recognised on an accrual basis over the working life of the eligible employees. Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur.

### 2.22 Segment reporting

The segment information has been prepared in accordance with IFRS 8 Operating Segments, which requires disclosure of financial information of an entity's operating segments.

*Identification of reportable segments*

Segment information is prepared in conformity with the basis that is reported to the chief operating decision maker in assessing segment performance and allocating resources to segments.

The revenue and operating assets are further disclosed within the geographical areas in which the group operates. These values have been reconciled to the consolidated financial statements. The basis on which the segments are reported by the group is in accordance with the accounting policies adopted for preparing and presenting the consolidated financial statements.

Segment revenue excludes value-added taxation and includes intersegment revenue. Net revenue represents segment revenue from which intersegment revenue has been eliminated. Sales between segments are made on a commercial basis.

## 2. Presentation of annual financial statements (continued)

### 2.22 Segment reporting (continued)

Segment expenses include direct and allocated expenses. Depreciation and amortisation have been allocated to the segments to which they relate.

The segment assets comprise all assets of the different segments that are employed by the segment and that either are directly attributable to the segment, or can be allocated to the segment on a reasonable basis.

#### Reportable segments

*Geotechnical operations*
Revenue in this segment is derived from the construction and provision of piling, pipejacking, lateral support and ground improvement for the construction industry, primarily in South Africa. Operations are, however, diversely located throughout Africa.

*Civils operations*
Revenue in this segment is derived from the construction of roads, township infrastructures, water and sewerage reticulation and concrete projects. Civils operations are solely located in South Africa.

*Pipeline operations*
Revenue in this segment is derived from the construction and rehabilitation of onshore pipelines. Pipeline operations are primarily located in South Africa.

*Geographical information*
The group's operations are principally located in South Africa. Operations are also located throughout Africa including Angola, Botswana, Ghana, Tanzania, Swaziland, Lesotho, Nigeria, Namibia, Mozambique, DRC and the Indian Ocean Islands.

## 3. New accounting pronouncements

### New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 28 February 2013, and have not been applied in preparing these consolidated financial statements:

| Standard/ Interpretation | | Effective date |
|---|---|---|
| | | Periods beginning on or after |
| IAS 1 amendment | *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*<br>The company will present those items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. The related tax effects for the two sub-categories will be shown separately. This is a change in presentation and will have no impact on the recognition or measurement of items in the financial statements. The amendment will be applied retrospectively and the comparative information will be restated. | 1 July 2012 |
| IFRS 10 | *Consolidated Financial Statements*<br>IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result the group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. | 1 January 2013 |
| IFRS 11 | *Joint Arrangements*<br>IFRS 11 establishes that classification of the joint arrangement depends on whether parties have rights to and obligations for the underlying assets and liabilities.<br><br>According to IFRS 11, joint arrangements are divided into two types, each having its own accounting model:<br>■ Joint operations whereby the jointly controlling parties, known as joint operators, have rights to assets and obligations for the liabilities, relating to the arrangement.<br>■ Joint ventures whereby the joint controlling parties, known as joint venturers, have rights to the net assets of the arrangement.<br><br>In terms of IFRS 11, all joint ventures will have to be equity accounted.<br><br>This will have no impact on the financial statements of Esorfranki Limited. | 1 January 2013 |
| IFRS 12 | *Disclosure of Interests in Other Entities*<br>IFRS 12 brings together in a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests. | 1 January 2013 |

## 3. New accounting pronouncements (continued)

### New standards and interpretations not yet adopted (continued)

| Standard/ Interpretation | | Effective date |
|---|---|---|
| | | Periods beginning on or after |
| IFRS 13 | *Fair Value Measurement*<br>IFRS 13 introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosure requirements for fair value measurements.<br>The key principles in IFRS 13 are as follows:<br>■ Fair value is an exit price.<br>■ Measurement considers characteristics of the asset or liability and not entity-specific characteristics.<br>■ Measurement assumes a transaction in the entity's principle (or most advantageous) market between market participants.<br>■ Price is not adjusted for transaction costs.<br>■ Measurement maximises the use of relevant observable inputs and minimises the use of unobservable inputs.<br>■ The three-level fair value hierarchy is extended to all fair value measurements.<br>The impact on the financial statements for Esorfranki Limited cannot be reasonably estimated as at 28 February 2013. | 1 January 2013 |
| IAS 19 amendment | *Employee Benefits: Defined Benefit Plans*<br>IAS 19 (2011) changes the definition of short-term and long-term employee benefits to clarify the distinction between the two. For defined benefit plans the removal of the accounting policy choice for recognition of actuarial gains or losses is not expected to have any impact on the group. | 1 January 2013 |
| IAS 27 | *Separate Financial Statements (2011)*<br>IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.<br>The adoption of IAS 27 (2011) will not have a significant impact on the company's separate financial statements. | 1 January 2013 |
| IFRS 7 amendment | *Disclosures – Offsetting Financial Assets and Financial Liabilities*<br>The amendments contain new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position; or are subject to enforceable master netting arrangements or similar agreements. | 1 January 2013 |

## 3. New accounting pronouncements (continued)

### New standards and interpretations not yet adopted (continued)

| Standard/ Interpretation | | Effective date |
|---|---|---|
| | | Periods beginning on or after |
| IFRS 9 (2009) | *Financial Instruments*<br>IFRS 9 addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39.<br><br>Under IFRS 9 there are two options in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host.<br><br>The impact on the financial statements for Esorfranki Limited cannot be reasonably estimated as at 28 February 2013. | 1 January 2015 |
| IFRS 9 (2010) | *Financial Instruments*<br>IFRS 9 (2010) addresses the measurement and classification of financial liabilities and will replace the relevant sections of IAS 39.<br><br>Under IFRS 9 (2010), the classification and measurement requirements of financial liabilities are the same as per IAS 39, except for the following two aspects:<br>■ Fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, that are attributable to the changes in the credit risk of the liability will be presented in other comprehensive income (OCI). The remaining amount of the fair value change is recognised in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. The determination as to whether such presentation would create or enlarge an accounting mismatch is made on initial recognition and is not subsequently re-assessed.<br>■ Under IFRS 9 (2010) derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are measured at fair value.<br><br>IFRS 9 (2010) incorporates the guidance in IAS 39 dealing with fair value measurement and accounting for derivatives embedded in a host contract that is not a financial asset, as well as the requirements of IFRIC 9 Re-assessment of Embedded Derivatives.<br><br>The impact on the financial statements for Esorfranki Limited cannot be reasonably estimated as at 28 February 2013. | 1 January 2015 |

## 4. Property, plant and equipment

| Group | Cost R'000 | Accumulated depreciation and impairment losses R'000 | Carrying value R'000 |
|---|---|---|---|
| **2013** | | | |
| Land and buildings | **70 399** | **(12 542)** | **57 857** |
| Plant and equipment | **1 172 840** | **(434 990)** | **737 850** |
| Motor vehicles | **54 270** | **(29 477)** | **24 793** |
| Furniture and fittings | **1 541** | **(1 266)** | **275** |
| Computers | **3 701** | **(1 798)** | **1 903** |
| | **1 302 751** | **(480 073)** | **822 678** |
| 2012 | | | |
| Land and buildings | 67 161 | (2 497) | 64 664 |
| Plant and equipment | 972 841 | (323 656) | 649 185 |
| Motor vehicles | 45 135 | (22 291) | 22 844 |
| Furniture and fittings | 1 734 | (1 336) | 398 |
| Computers | 1 705 | (1 484) | 221 |
| | 1 088 576 | (351 264) | 737 312 |

The carrying amount of property, plant and equipment can be reconciled as follows:

| | Carrying value at beginning of year R'000 | Additions R'000 | Disposals R'000 | Depre-ciation R'000 | Impair-ments R'000 | Translation adjust-ments R'000 | Carrying value at end of year R'000 |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Land and buildings | **64 664** | **1 374** | **(4 289)** | **(956)** | **(8 757)** | **5 821** | **57 857** |
| Plant and equipment | **649 185** | **182 237** | **(6 759)** | **(100 240)** | **–** | **13 427** | **737 850** |
| Motor vehicles | **22 844** | **8 090** | **(1 196)** | **(5 756)** | **–** | **811** | **24 793** |
| Furniture and fittings | **398** | **92** | **–** | **(217)** | **–** | **2** | **275** |
| Computers | **221** | **2 137** | **–** | **(455)** | **–** | **–** | **1 903** |
| | **737 312** | **193 930** | **(12 244)** | **(107 624)** | **(8 757)** | **20 061** | **822 678** |

## 4. Property, plant and equipment (continued)

| | Carrying value at beginning of year R'000 | Additions R'000 | Disposals R'000 | Depre-ciation R'000 | Impair-ments R'000 | Trans-lation adjust-ments R'000 | Carrying value at end of year R'000 |
|---|---|---|---|---|---|---|---|
| 2012 | | | | | | | |
| Land and buildings | 61 537 | 5 152 | (3 293) | (317) | (17) | 1 602 | 64 664 |
| Plant and equipment | 475 582 | 249 216 | (15 933) | (72 733) | 3 316 | 9 737 | 649 185 |
| Motor vehicles | 27 645 | 3 234 | (1 036) | (4 064) | (3 292) | 357 | 22 844 |
| Furniture and fittings | 456 | 120 | – | (172) | (6) | – | 398 |
| Computers | 555 | – | – | (333) | (1) | – | 221 |
| | 565 775 | 257 722 | (20 262) | (77 619) | – | 11 696 | 737 312 |

Included in the carrying amounts above are items of plant and equipment which have been impaired. The accumulated impairment at year-end was R8,8 million (2012: R10,1 million).

Certain plant and equipment with a carrying value of R293 million (2012: R399 million) is encumbered to secure the borrowings (instalment sale financing) set out in notes 15 and 20. Further to this, property, plant and equipment with a carrying value of R163,3 million has been encumbered in terms of the overall security provided for the domestic medium-term note programme described in note 15. The estimated fair value of these encumbered assets at inception of the note programme was R420 million.

## 5. Intangible assets

| Group | Cost R'000 | Accumulated amortisation R'000 | Carrying value R'000 |
|---|---|---|---|
| **2013** | | | |
| "Franki" brand name | **94 529** | **(8 193)** | **86 336** |
| | **94 529** | **(8 193)** | **86 336** |
| 2012 | | | |
| "Franki" brand name | 94 529 | (6 303) | 88 226 |
| | 94 529 | (6 303) | 88 226 |

The carrying amount of intangible assets can be reconciled as follows:

| | Amortisation period | Carrying value at beginning of year R'000 | Amortisation R'000 | Impairment R'000 | Carrying value at end of year R'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| "Franki" brand name | **50 years** | **88 226** | **(1 890)** | **–** | **86 336** |
| | | **88 226** | **(1 890)** | **–** | **86 336** |
| 2012 | | | | | |
| "Franki" brand name | 50 years | 90 117 | (1 891) | – | 88 226 |
| | | 90 117 | (1 891) | – | 88 226 |

## 6. Goodwill

| Group | Cost R'000 | Accumulated impairment R'000 | Carrying value R'000 |
|---|---|---|---|
| **2013** | | | |
| Esorfranki Construction – Geotechnical | **36 015** | **–** | **36 015** |
| Esorfranki Construction – Civils | **178 306** | **–** | **178 306** |
| Esorfranki Construction – Pipelines | **90 837** | **–** | **90 837** |
| Brookmay | **557** | **–** | **557** |
| | **305 715** | **–** | **305 715** |
| 2012 | | | |
| Esorfranki Construction – Geotechnical | 36 015 | – | 36 015 |
| Esorfranki Construction – Civils | 178 306 | – | 178 306 |
| Esorfranki Construction – Pipelines | 90 837 | – | 90 837 |
| Brookmay | 557 | – | 557 |
| | 305 715 | – | 305 715 |

The carrying amount of goodwill can be reconciled as follows:

| | Carrying value at beginning of year R'000 | Additions R'000 | Adjustment R'000 | Carrying value at end of year R'000 |
|---|---|---|---|---|
| **2013** | | | | |
| Esorfranki Construction – Geotechnical | **36 015** | **–** | **–** | **36 015** |
| Esorfranki Construction – Civils | **178 306** | **–** | **–** | **178 306** |
| Esorfranki Construction – Pipelines | **90 837** | **–** | **–** | **90 837** |
| Brookmay | **557** | **–** | **–** | **557** |
| | **305 715** | **–** | **–** | **305 715** |
| 2012 | | | | |
| Esorfranki Construction – Geotechnical | 36 015 | – | – | 36 015 |
| Esorfranki Construction – Civils | 178 306 | – | – | 178 306 |
| Esorfranki Construction – Pipelines | 90 837 | – | – | 90 837 |
| Brookmay | 557 | – | – | 557 |
| | 305 715 | – | – | 305 715 |

Goodwill arising from business combinations has been allocated to individual reporting units or cash-generating units, namely Esorfranki Geotechnical, Esorfranki Civils, Esorfranki Pipelines and Brookmay.

The recoverable amount of each cash-generating unit was estimated based on its value in use and in all cases the carrying amount was lower than its recoverable amount and no impairment loss was recognised. The recoverable amounts which were determined with the assistance of independent valuers, are as follows:

| | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Geotechnical | **512 755** | 469 245 |
| Civils | **601 328** | 474 874 |
| Pipelines | **272 509** | 188 777 |
| | **1 386 592** | 1 132 896 |

## 6. Goodwill (continued)

Value in use was determined by discounting the future cash flows generated from the continuing use of the individual entities and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and a forecast period of five years;
- Revenue growth was projected 23,1% for 2014, 19,2% for 2015, 11,4% for 2016 and 10,0% thereafter based on secured work load and past experience;
- Gross margins were maintained at margins expected in the industry over the forecast period based on past experience;
- Operating expenses were not expected to increase significantly but have been increased in line with revenue growth; and
- A pre-tax discount rate of between 20,9% to 24,4% (2012: 20,61% to 23,85%) was applied in determining the recoverable amounts of the cash-generating units. The discount rate was estimated based on weighted average cost of capital and a debt-equity ratio of 20% (2012: 20%).

The values assigned to key assumptions represent management's assessment of future trends in the construction industry and are based on both internal and external sources.
The above estimates are sensitive in the following areas:

- Discount rate applied; and
- Forecasted revenues and margins.

Based on a range of estimates in the above areas, management is confident that no impairment is required.

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>R'000 | 2012<br>R'000 | 2013<br>R'000 | 2012<br>R'000 |
| **7. Financial assets at fair value through profit or loss** | | | | |
| A foreign exchange hedge was taken out in February 2012 to hedge €9,5 million revenue on a contract with a term of 16 months. | | | | |
| Cost | **7 627** | 7 627 | **–** | – |
| Amortisation | **(4 700)** | (2 134) | **–** | – |
| Fair value adjustment | **(2 912)** | (329) | **–** | – |
| Carrying value | **15** | 5 164 | **–** | |
| Disclosed as: | | | | |
| Non-current assets | **3** | 1 291 | **–** | – |
| Trade and other receivables | **12** | 3 873 | **–** | – |
| | **15** | 5 164 | **–** | – |
| **8. Investments in subsidiaries** | | | | |
| Shares at cost | **–** | – | **678 466** | 679 632 |
| Details of the investments in subsidiaries are shown in notes 42 and 45. | | | | |
| **9. Inventories** | | | | |
| Consumables | **19 724** | 20 622 | **–** | – |
| Housing property held for development and resale | **49 997** | – | **–** | – |
| | **69 721** | 20 622 | **–** | – |
| **10. Non-current assets held for sale** | | | | |
| A property in Durban, KwaZulu-Natal which formed part of the Geotechnical business unit was presented as held for sale in the comparative period. The sale was completed in July 2012. The proceeds of this sale were R30 million. The proceeds of this sale were ceded to Standard Bank in support of the group's working capital facility | **–** | 3 293 | **–** | – |

| | Group 2013 R'000 | Group 2012 R'000 | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|---|---|
| **11. Other investments** | | | | |
| Loan – Kathu Property Developers Proprietary Limited | **27 726** | – | **–** | – |
| This loan was provided for a period of 42 months from April 2012 and earned interest at a rate of Prime plus 2%. This loan is secured by a first mortgage bond over Erven 8434, 8435 and 8436 Kathu, Gamagara Municipality, Northern Cape Province. Through discussion with Kathu Property Developers, management expects this loan to be settled within the next 12 months. | | | | |
| | **27 726** | – | **–** | – |

| | Interest rate % | Group 2013 R'000 | Group 2012 R'000 | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|---|---|---|
| **12. Unsecured loans** | | | | | |
| Esor Africa Proprietary Limited | – | **–** | – | **17 856** | 17 957 |
| Esor Share Incentive Scheme Trust | – | **–** | – | **2 378** | 2 378 |
| Esorfranki Construction Proprietary Limited | 8,5 | **–** | – | **368 543** | (63 482) |
| | | **–** | – | **388 777** | (43 147) |
| Disclosed as follows: | | | | | |
| Current assets | | **–** | – | **388 777** | 20 335 |
| Current liabilities | | **–** | – | **–** | (63 482) |
| | | **–** | – | **388 777** | (43 147) |

These loans are repayable on demand.

A subordination agreement was entered into by Esorfranki Limited and its subsidiaries, subordinating any intra-group debt claims the group companies may have against each other to the preferential debts owed to The Standard Bank of South Africa Limited and ABSA Bank Limited for the duration of the funding arrangements entered into (Refer notes 15 and 20).

The balance of impairments raised in previous periods was R282 million and R4,49 million as at 28 February 2013. These were against the unsecured loans receivable from Esor Africa (consequent to the group reorganisation) and the Esor Share Incentive Scheme Trust, respectively.

| | Group 2013 R'000 | Group 2012 R'000 | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|---|---|
| **13. Trade and other receivables** | | | | |
| Trade receivables | **759 206** | 464 429 | **–** | – |
| Financial assets at fair value through profit or loss | **12** | 3 873 | **–** | – |
| Sundry debtors and pre-payments | **67 495** | 60 801 | **5 213** | – |
| | **826 713** | 529 103 | **5 213** | – |
| Trade receivables include amounts due from customers. This amount is calculated as follows: | | | | |
| Costs incurred plus recognised profits, less recognised losses on contracts in progress at year-end | **5 410 319** | 3 084 361 | **–** | – |
| Amounts certified | **(5 285 159)** | (2 821 202) | **–** | – |
| Retentions receivable | **171 125** | 116 065 | **–** | – |
| | **296 285** | 379 224 | **–** | – |
| Amounts due from contract customers | **345 654** | 464 429 | **–** | – |
| Amounts due to contract customers (refer note 21) | **(49 369)** | (85 205) | **–** | – |
| | **296 285** | 379 224 | **–** | – |
| The total carrying value of trade receivables have been pledged to secure the borrowing facilities mentioned in notes 15 and 20. | | | | |
| **14. Share capital and premium** | | | | |
| *Authorised* | | | | |
| 500 000 000 ordinary shares of R0,001 each | **500** | 500 | **500** | 500 |
| *Issued* | | | | |
| 395 185 430 (2012: 395 185 430) ordinary shares of R0,001 each | **395** | 395 | **395** | 395 |
| *Less:* 6 267 096 (2012: 7 086 498) treasury shares held by the Esor Share Incentive Scheme, and | **(6)** | (7) | **–** | – |
| 13 312 250 treasury shares held by the Esor Broad Based Share Ownership Scheme | **(13)** | – | **–** | – |
| | **376** | 388 | **395** | 395 |
| Share premium | **570 924** | 591 657 | **607 050** | 607 837 |
| Balance at beginning of year | **591 657** | 389 155 | **607 837** | 407 930 |
| Premium on treasury shares acquired | **(21 286)** | – | **–** | – |
| Premium on shares issued | **1 340** | 202 502 | **–** | 199 907 |
| Share issue expenses written off | **(787)** | – | **(787)** | – |
| | **571 300** | 592 045 | **607 445** | 608 232 |

### Share movements

There were no movements in the issued share capital during the year.

The following changes were made to issued share capital during the comparative year:

The company issued 93 023 256 ordinary shares at R2,15 on 14 March 2011 in terms of the Rights Issue as detailed in SENS announcements, the last of which was dated 8 March 2011.

## 15. Secured borrowings

| | Monthly instalment | | Group | | Company | |
|---|---|---|---|---|---|---|
| | Group R'000 | Company R'000 | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Instalment sale agreements | 10 780 | – | **237 937** | 285 817 | **–** | – |
| Mortgage bond | – | – | **–** | 17 | **–** | – |
| **Domestic medium-term note programme** | | | | | | |
| On 24 August 2012, the group raised R17,5 million under this programme. The note, EFC01, was listed on the Bond Exchange of South Africa on 24 August 2012 and bore interest at the three-month JIBAR rate plus 3,75%. Interest was payable quarterly. This bond will be redeemed on 24 August 2014 | – | – | **17 500** | – | **17 500** | – |
| On 24 August 2012, the group raised R125 million under this programme. The note, EFC02, was listed on the Bond Exchange of South Africa on 24 August 2012 and bore interest at the three-month JIBAR rate plus 4,5%. Interest was payable quarterly. This bond will be redeemed on 24 August 2015 | – | – | **125 000** | – | **125 000** | – |
| On 24 August 2012, the group raised R45 million under this programme. The note, EFC03, was listed on the Bond Exchange of South Africa on 24 August 2012 and bore interest at the three-month JIBAR rate plus 5%. Interest was payable quarterly. This bond will be redeemed on 24 August 2016 | – | – | **45 000** | – | **45 000** | – |
| On 24 August 2012, the group raised R15 million under this programme. The note, EFC04, was listed on the Bond Exchange of South Africa on 24 August 2017 and bore interest at the three-month JIBAR rate plus 5,5%. Interest was payable quarterly. This bond will be redeemed on 24 August 2017 | – | – | **15 000** | – | **15 000** | – |
| **Securities Lending Transaction** | | | | | | |
| The Esor Share Incentive Scheme entered into a securities lending transaction with Standard Bank in terms of which the trust has loaned 5 209 342 shares in Esorfranki Limited and, in return, Standard Bank advanced an amount of R6,9 million to the trust. This instrument bears interest at an effective rate of 8,5% and is fixed for the duration of the agreement. The final date for repayment of this instrument is March 2014 | – | – | **7 551** | – | **–** | – |
| Related to this Securities Lending Transaction are European Put and Call options with strike prices of R1,34 and R1,54, respectively. The expiration dates of these options are between August 2013 and February 2014. | | | | | | |
| Total secured borrowings | | | **447 988** | 285 834 | **202 500** | – |
| Current portion included under current liabilities | | | **(79 481)** | (105 923) | **–** | – |
| | | | **368 507** | 179 911 | **202 500** | – |

Instalment sale agreements are secured over plant and equipment referred to in note 4. Interest is levied at rates of between prime plus 3,5% and prime minus 2,0%. Instalment sale agreements are for periods not exceeding 60 months. The last final repayment date on the instalment agreements is February 2018.

The Domestic medium-term note programme is secured over plant and equipment referred to in note 4.

At year-end, the prime interest rate was 8,5% (2012: 9,0%).

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| **16. Preference shares** | | | | | |
| 1 000 preference shares | | **21 000** | – | **–** | – |
| On 1 July 2012, 1 000 cumulative compulsory redeemable preference shares were issued by Esorfranki Property Developments (Pty) Ltd at an issue price of R21 000 per share. These shares bear interest at a rate of prime plus 3%. Interest is payable on the last day of February each year. These instruments will be redeemed in July 2015. | | | | | |
| These preference shares are guaranteed as disclosed in note 46. | | | | | |
| **17. Post-retirement benefits** | | | | | |
| *Defined benefits* | | | | | |
| Prior to 1 July 2005, all medical aid members of Esorfranki Geotechnical who reached the age of 65 years together with employees who were 55 years or older, who accepted early retirement as an alternative to retrenchment, received a subsidy of 50% towards post-retirement medical aid contributions. This obligation is unfunded. | | | | | |
| Balance at 1 March | | **1 806** | 1 657 | **–** | – |
| Current contributions paid | | **(134)** | (67) | **–** | – |
| Settlement of liability | | **–** | – | **–** | – |
| Actuarial loss charged to other comprehensive income | | **97** | 73 | **–** | – |
| Interest cost | | **144** | 143 | **–** | – |
| **Balance at 28/29 February** | | **1 913** | 1 806 | **–** | – |
| The principal actuarial assumptions applied in the determination of the fair values include: | | | | | |
| Consumer price inflation | (%) | **5,40** | 5,50 | **–** | – |
| Discount rate | (%) | **6,90** | 8,25 | **–** | – |
| Medical cost trend rate | (%) | **7,40** | 7,50 | **–** | – |
| Number of employees in the fund | | **6** | 6 | **–** | – |
| Date of last actuarial valuation: 28 February 2013. | | | | | |
| Date of next actuarial valuation: 28 February 2014. | | | | | |
| Any changes in the actuarial assumptions are not expected to have a significant impact on the post-retirement obligation. | | | | | |
| *Sensitivity* | | | | | |
| The effect of a 1% movement in the healthcare cost inflation assumption on the contractual liability and the annual expense after taxation is as follows: | | | | | |
| 1% increase in healthcare cost | | **171** | 156 | **–** | – |
| 1% decrease in healthcare cost | | **(151)** | (138) | **–** | – |
| 1% increase in interest cost | | **(11)** | (11) | **–** | – |
| 1% decrease in interest cost | | **11** | 9 | **–** | – |
| *Defined contributions* | | | | | |
| Contributions to retirement benefit funds | | **44 912** | 32 112 | **–** | – |

Retirement benefits are provided for full-time permanently employed staff who are under normal retirement ages by means of a pension and provident fund. The company's contributions are charged to profit or loss in the year that they become due. The funds are governed by the Pension Funds Act, 24 of 1956, and are defined contribution funds.

| | Group 2013 R'000 | Group 2012 R'000 | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|---|---|
| **18. Deferred tax** | | | | |
| Balance at beginning of year | **116 304** | 104 809 | **–** | – |
| Movements during the year: | | | | |
| Translation adjustment | **809** | 258 | **–** | – |
| Movements in FCTR and other | **2 875** | 1 862 | **–** | – |
| Temporary differences | **6 189** | 9 375 | **–** | – |
| **Balance at end of year** | **126 177** | 116 304 | **–** | – |
| The balance comprises: | | | | |
| Property, plant and equipment | **115 417** | 105 071 | **–** | – |
| Intangible assets | **24 174** | 24 704 | **–** | – |
| Net investment in foreign operations | **–** | (4 261) | **–** | – |
| Provisions and accruals | **(17 199)** | (20 906) | **–** | – |
| Retentions receivable | **47 915** | 32 162 | **–** | – |
| Advance billings | **(18 489)** | (156) | **–** | – |
| Allowance for future expenditure | **6 422** | 13 252 | **–** | – |
| Assessed loss | **(50 194)** | (34 047) | **–** | – |
| Other | **18 131** | 485 | **–** | – |
| | **126 177** | 116 304 | **–** | – |
| Non-current assets | **22 729** | 18 637 | **–** | – |
| Non-current liabilities | **(148 906)** | (134 941) | **–** | – |
| | **(126 177)** | (116 304) | **–** | – |
| **19. Provisions** | | | | |
| *Staff bonuses* | | | | |
| Opening balance | **16 350** | 3 213 | **–** | – |
| Utilised | **(36 873)** | (3 213) | **–** | – |
| Created | **40 220** | 16 350 | **–** | – |
| Closing balance | **19 697** | 16 350 | **–** | – |
| *General provisions* | | | | |
| Acquired through business combination | **11 128** | – | **–** | – |
| Created | **7 504** | – | **–** | – |
| Closing balance | **18 632** | – | **–** | – |
| Total provisions | **38 329** | 16 350 | **–** | – |

The provision for staff bonuses relates mainly to discretionary bonuses payable to staff. This provision is based on historical data and management's estimate of payments likely to be made. The group expects to incur the majority of the liability over the next year.

The general provision relates to the group's obligation to build a section of road and a bridge as part of the negotiated terms of the Orchards development near Pretoria. These need to be completed before the end of the project which is likely to be in the 2016 financial year.

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| **20. Borrowing facilities** | | | | |
| *Available facilities* | | | | |
| – asset finance | **314 771** | 384 541 | **–** | – |
| – contract guarantees | **1 604 580** | 1 218 000 | **–** | – |
| – overdraft | **30 000** | 61 220 | **–** | – |
| – forward exchange contracts | **5 000** | 5 000 | **–** | – |
| – financial derivatives | **16 000** | 16 000 | **–** | – |
| – mortgage bond | **–** | 55 | **–** | – |
| | **1 970 351** | 1 684 816 | **–** | – |
| *Facilities utilised* | | | | |
| – asset finance | **229 281** | 278 921 | **–** | – |
| – contract guarantees | **635 459** | 421 372 | **–** | – |
| – overdraft | **29 938** | 3 047 | **–** | – |
| – financial derivatives | **4 121** | 5 164 | **–** | – |
| – mortgage bonds | **–** | 17 | **–** | – |
| | **898 799** | 708 521 | **–** | – |
| The overdraft facility increased by R20 million after year- end, and the asset finance facility was consequently reduced by R20 million. | | | | |
| Companies within the group have provided securities to secure these facilities (refer note 15). | | | | |
| **21. Trade and other payables** | | | | |
| Trade payables | **216 449** | 120 147 | **9** | 46 |
| Accruals | **167 569** | 168 565 | **211** | 707 |
| Amounts due to customers (refer note 13) | **49 369** | 85 205 | **–** | – |
| Sundry payables | **60 429** | 47 270 | **317** | – |
| | **493 816** | 421 187 | **537** | 753 |
| Included in amounts due to customers are amounts in respect of future losses on contracts amounting to R9,9 million (2012: R13,4 million). | | | | |
| **22. Revenue** | | | | |
| Contract revenue | **2 325 958** | 1 771 692 | **–** | – |
| Dividends received | **–** | – | **239 707** | – |
| | **2 325 958** | 1 771 692 | **239 707** | – |
| Contract revenue comprises the value of work done in respect of contracts, net of value-added taxation. | | | | |
| Dividends received comprises the gross amount of dividends received from subsidiaries and other investments. | | | | |

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| **23. Other income** | | | | |
| Profit on disposal of plant and equipment | **25 915** | 585 | **–** | – |
| Profit on acquisition of subsidiary | **1 115** | – | **–** | – |
| Sundry income | **209** | 1 120 | **218** | 218 |
| | **27 239** | 1 705 | **218** | 218 |
| **24. Results from operating activities** | | | | |
| Results from operating activities are stated after taking into account the following items which require separate disclosure: | | | | |
| *Income* | | | | |
| Profit on disposal of property, plant and equipment | **25 915** | 585 | **–** | – |
| Exchange gain on amounts due from subsidiaries and foreign branches | **37 935** | 48 344 | **–** | – |
| *Expenditure* | | | | |
| Auditor remuneration | **6 086** | 3 430 | **338** | 487 |
| – Audit fees | **5 320** | 3 210 | **338** | 487 |
| – Other services | **766** | 220 | **–** | – |
| Depreciation of property, plant and equipment | **107 624** | 77 619 | **–** | – |
| Amortisation of intangible assets | **1 890** | 1 891 | **–** | – |
| Impairment of investments | **–** | – | **3 584** | – |
| Impairment of property, plant and equipment | **8 757** | – | **–** | – |
| Impairment of unsecured loans | **–** | – | **–** | 286 488 |
| Loss on disposal of property, plant and equipment | **2 320** | 8 682 | **–** | – |
| Exchange loss on amounts due from subsidiaries and foreign branches | **45 360** | 51 549 | **–** | – |
| Staff costs | **690 882** | 456 174 | **–** | – |
| Operating lease charges (refer note 43) | **129 410** | 93 852 | **–** | – |
| – Equipment hire | **90 287** | 86 190 | **–** | – |
| – Motor vehicles | **32 316** | 3 130 | **–** | – |
| – Property rentals | **6 807** | 4 532 | **–** | – |
| Number of employees at year-end | **4 654** | 3 402 | **–** | – |

ANNUAL FINANCIAL STATEMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| **25. Net interest** | | | | |
| *Finance income* | | | | |
| Interest income on bank deposits | **1 977** | 1 204 | **–** | – |
| Exchange gain on amounts owing to/from subsidiaries and foreign branches | **37 935** | 48 344 | **–** | – |
| Other | **2 457** | 178 | **12 805** | – |
| | **42 369** | 49 726 | **12 805** | – |
| *Finance costs* | | | | |
| Interest expense on financial liabilities measured at amortised cost | **33 493** | 20 602 | **12 805** | 2 |
| Preference dividends | **1 607** | – | **–** | – |
| Exchange loss on amounts owing to/from subsidiaries and foreign branches | **45 360** | 51 549 | **–** | – |
| Other | **6 224** | 1 082 | **–** | – |
| | **86 684** | 73 233 | **12 805** | 2 |
| The above financial income and expense includes the following in respect of assets/(liabilities) not at fair value through profit or loss: | **(31 516)** | (19 398) | **–** | (2) |
| Total finance income on financial assets | **1 977** | 1 204 | **12 805** | – |
| Total finance expense on financial liabilities | **(33 493)** | (20 602) | **(12 805)** | (2) |

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| **26. Income tax expense** | | | | |
| **South African** | | | | |
| Normal taxation | **7 461** | (7 831) | **–** | (553) |
| – current tax | **3 203** | 5 | **–** | – |
| – prior year under/(over) provision | **4 258** | (7 836) | **–** | (553) |
| Deferred tax | **3 899** | 6 995 | **–** | – |
| – current | **3 919** | (3 997) | **–** | – |
| – prior year (over)/under provision | **(20)** | 10 992 | **–** | – |
| Capital gains tax | **3 580** | – | **–** | – |
| **Foreign** | | | | |
| Normal tax | **1 739** | 9 879 | **–** | – |
| – current | **6 936** | 8 811 | **–** | – |
| – prior year (over)/under provision | **(5 324)** | 1 068 | **–** | – |
| Withholding tax | **127** | – | **–** | – |
| Deferred | **2 290** | 2 380 | **–** | – |
| – current | **3 478** | 1 987 | **–** | – |
| – prior year (over)/under provision | **(1 188)** | 393 | **–** | – |
| | **18 969** | 11 423 | **–** | (553) |
| Reconciliation of tax rates: | **%** | % | **%** | % |
| Normal rate of taxation | **28,0** | 28,00 | **28,0** | 28,00 |
| Adjusted for | **(10,2)** | 10,54 | **(28,0)** | (27,81) |
| – change in tax rates | **–** | (0,51) | **–** | – |
| – foreign tax rates | **(13,3)** | (13,58) | **–** | – |
| – exempt income | **(0,3)** | (7,25) | **(28,95)** | – |
| – capital gains tax | **3,4** | – | **–** | – |
| – prior year (over)/under provision | **(5,8)** | 5,02 | **–** | – |
| – permanent differences | **2,1** | 9,75 | **–** | – |
| – non-deductible expenditure | **3,3** | 15,93 | **0,95** | – |
| – other | **0,4** | 1,18 | **–** | (27,81) |
| | **17,8** | 38,54 | **–** | 0,19 |

| | | Group 2013 R'000 | Group 2012 R'000 | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|---|---|---|
| **27. Earnings per share** | | | | | |
| Basic earnings/(loss) per share | (cents) | **23,5** | 4,7 | **58,7** | (73,1) |
| Diluted earnings/(loss) per share | (cents) | **23,5** | 4,7 | **58,7** | (73,1) |
| Headline earnings/(loss) per share | (cents) | **20,5** | 6,2 | **58,7** | (20,7) |
| Diluted headline earnings/(loss) per share | (cents) | **20,5** | 6,2 | **58,7** | (20,7) |
| Dividend per share | (cents) | **–** | – | **–** | – |
| The calculation of the headline earnings/(loss) per share attributable to the ordinary equity holders of the parent is based on the following information: | | | | | |
| Reconciliation of headline earnings/(loss): | | | | | |
| Profit/(loss)after tax | | **87 710** | 18 216 | **232 041** | (288 028) |
| Net (profit)/loss on disposal of property, plant and equipment | | **(16 988)** | 5 830 | **–** | – |
| Impairment of intangible assets, property, plant and equipment and investments | | **6 305** | – | **3 584** | 206 271 |
| Headline earnings/(loss) | | **77 027** | 24 046 | **235 625** | (81 757) |
| Weighted average number of ordinary shares: | | | | | |
| Issued ordinary shares | | **395 185 430** | 395 185 430 | **395 185 430** | 395 185 430 |
| Effect of own shares held | | **(19 491 302)** | (7 437 511) | **–** | – |
| Effect of shares issued | | **(405 223)** | (1 016 648) | **–** | (1 016 648) |
| Weighted average number of shares | | **375 288 905** | 386 731 271 | **395 185 430** | 394 168 782 |
| Dilutive average number of ordinary shares: | | | | | |
| The calculation of the diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following information: | | | | | |
| Weighted average number of ordinary shares | | **375 288 905** | 386 731 271 | **395 185 430** | 394 168 782 |
| Effect of share options issued | | **–** | – | **–** | – |
| Diluted weighted average number of shares | | **375 288 905** | 386 731 271 | **395 185 430** | 394 168 782 |

The average market value of the company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices of options that were outstanding during the period.

| | Group 2013 R'000 | Group 2012 R'000 | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|---|---|
| **28. Reconciliation of profit before taxation to cash generated from/(utilised by) operations** | | | | |
| Profit/(loss) before taxation | **106 679** | 29 639 | **232 041** | (288 581) |
| Adjusted for: | | | | |
| – finance income | **(42 369)** | (49 726) | **(12 805)** | – |
| – profit on disposal of property, plant and equipment | **(25 915)** | (585) | **–** | – |
| – loss on disposal of property, plant and equipment | **2 320** | 8 682 | **–** | – |
| – profit on acquisition of subsidiary | **(1 115)** | – | **–** | – |
| – foreign currency adjustment | **8 771** | 2 217 | **–** | – |
| – depreciation of property, plant and equipment | **107 624** | 77 619 | **–** | – |
| – amortisation of intangible assets | **1 890** | 1 891 | **–** | – |
| – impairment of intangible assets | **–** | – | **–** | – |
| – impairment of unsecured loans | **–** | – | **–** | 286 488 |
| – amortisation and fair value adjustments of financial assets | **7 612** | 2 463 | **3 584** | – |
| – share-based payments | **2 418** | 1 744 | **–** | – |
| – impairment of property, plant and equipment | **8 757** | – | **–** | – |
| – finance costs | **86 684** | 73 233 | **12 805** | 2 |
| Operating profit before working capital changes | **263 356** | 147 177 | **235 625** | (2 091) |
| Working capital changes | **(228 854)** | 8 283 | **(5 429)** | (8 157) |
| (Increase)/decrease in trade and other receivables | **(303 483)** | (111 462) | **(5 213)** | 124 |
| Increase in inventories | **(8 830)** | (3 639) | **–** | – |
| Increase/(decrease) in trade and other payables | **72 608** | 110 247 | **(216)** | (8 281) |
| Increase in provisions | **10 851** | 13 137 | **–** | – |
| Cash generated from/(utilised by) operations | **34 502** | 155 460 | **230 196** | (10 248) |
| **29. Taxation paid** | | | | |
| Amounts owing at beginning of year | **(255)** | (6 098) | **–** | – |
| Current tax charged to profit or loss | **(12 780)** | (2 048) | **–** | 553 |
| Amount (receivable)/owing at end of year | **(10 005)** | 255 | **–** | – |
| | **(23 040)** | (7 891) | **–** | 553 |

| | Group 2013 R'000 | Group 2012 R'000 | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|---|---|
| **30. Acquisition of subsidiary** | | | | |
| During the year, effective 1 March 2012, the group assumed control of the Esor Broad-Based Share Ownership Scheme. This was as a result of the restructuring of the board of this trust. No amount was paid for this acquisition. The fair values of assets and liabilities of this trust were as follows on the date of acquisition: | | | | |
| Trade and other receivables | **2** | – | **–** | – |
| Cash | **1 113** | – | **–** | – |
| Net assets | **1 115** | – | **–** | – |
| Net cash inflow | **(1 113)** | – | **–** | – |
| Safdev Land 1 Proprietary Limited was acquired on 1 July 2012. The financial values recognised on acquisition was as follows: | | | | |
| Inventories | **40 269** | – | **–** | – |
| Trade receivables | **449** | – | **–** | – |
| Cash and cash equivalents | **1 431** | – | **–** | – |
| Provisions | **(11 128)** | – | **–** | – |
| Trade payables | **(21)** | – | **–** | – |
| Net assets | **31 000** | – | **–** | – |
| Amount paid | | | | |
| – Cash | **(10 000)** | – | **–** | – |
| – Preference shares | **(21 000)** | – | **–** | – |
| *Less:* Cash acquired | **1 431** | – | **–** | – |
| Net cash outflow | **29 569** | – | **–** | – |
| Total net cash outflow | **(28 456)** | – | **–** | – |
| **31. Cash and cash equivalents** | | | | |
| Cash and cash equivalents included in the statement of cash flows include the following amounts: | | | | |
| Cash and cash equivalents | **67 647** | 96 653 | **7** | 22 |
| Bank overdraft | **(34 059)** | (3 047) | **–** | – |
| Cash and cash equivalent at bank and on hand | **33 588** | 93 606 | **7** | 22 |
| **32. Jointly controlled operations** | | | | |
| The group and company have interests in the following jointly controlled operations: | | | | |
| Stefanutti Stocks Franki (%) | **50** | 50 | **–** | – |
| Esorfranki Balekane JV (%) | **95** | 95 | **–** | – |
| The group's interests in the jointly controlled operations have been incorporated into the results, assets and liabilities as follows: | | | | |
| **Statement of financial position** | | | | |
| Current assets | **18 215** | 102 735 | **–** | – |
| Current liabilities | **17 113** | 13 465 | **–** | – |
| **Statement of comprehensive income** | | | | |
| Revenue | **24 154** | 91 377 | **–** | – |
| Cost of sales | **(10 871)** | (52 385) | **–** | – |
| Gross profit | **13 283** | 38 992 | **–** | – |
| Interest received | **1 104** | – | **–** | – |
| Profit before taxation | **14 387** | 38 992 | **–** | – |

## 33. Share-based payment transactions

The group currently operates three share-based payment arrangements, which are described below:

| General employee share options | Plan A | Plan B | Plan C |
|---|---|---|---|
| Grant date | 14 March 2006 | 30 November 2006 | 14 December 2009 |
| Number of options granted | 3 000 000 | 3 000 000 | 8 250 000 |
| Option life | Five years | Five years | Five years |
| Vesting conditions | Options vest in tranches of 20% per annum | Options vest in tranches of 20% per annum | Options vest in tranches of 20% per annum |
| Method of settlement | Equity | Equity | Equity |

The fair values of options granted were calculated using Black-Scholes option pricing model. The key inputs into the model were as follows:

| General employee share options | Plan A | Plan B | Plan C |
|---|---|---|---|
| Weighted average share price (cents) | 237 | 237 | 692,5 |
| Weighted average exercise price (cents) | 136 | 136 | 362 |
| Weighted average volatility (%) | 35 | 35 | 50 |
| Remaining option life (years) | 1 | 1 | 3 |
| Pre-tax risk-free rate (%) | 7,4 | 7,4 | 7,68 |

The dividend yield assumption was based on a 20 cents per share dividend.

| Outstanding share options | 2013 Number of share options | 2012 Number of share options |
|---|---|---|
| Opening balance at beginning of year | **7 086 498** | 7 784 709 |
| Granted during the year | **–** | – |
| Exercised during the year | **(819 402)** | (698 211) |
| Outstanding at end of year | **6 267 096** | 7 086 498 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Expense arising from share-based payment transaction | **2 418** | 1 744 | **–** | – |
| Weighted average share price for the year (cents) | **137,4** | 161,5 | **137,4** | 161,5 |

ANNUAL FINANCIAL STATEMENTS

## 34. Directors' emoluments

| | Basic salary R'000 | Bonus R'000 | Directors' base fee R'000 | Directors' attendance fee R'000 | Total R'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| *Non-executive directors* | | | | | |
| EG Dube | **–** | **–** | **82** | **72** | **154** |
| Dr FA Sonn | **–** | **–** | **125** | **123** | **248** |
| DM Thompson | **–** | **–** | **133** | **133** | **266** |
| B Mathabathe | **–** | **–** | **55** | **23** | **78** |
| *Executive directors* | | | | | |
| B Krone | **–** | **–** | **–** | **–** | **–** |
| W van Zyl[1] | **–** | **–** | **–** | **–** | **–** |
| W van Houten[2] | **–** | **–** | **–** | **–** | **–** |
| A Brookstein[3] | **–** | **–** | **–** | **–** | **–** |
| From the company | **–** | **–** | **395** | **351** | **746** |
| *Executive directors* | | | | | |
| Esorfranki Construction | | | | | |
| B Krone | **3 063** | **1 296** | **–** | **–** | **4 359** |
| W van Zyl[1] | **796** | **42** | **–** | **–** | **838** |
| W van Houten[2] | **1 760** | **1 148** | **–** | **–** | **2 908** |
| A Brookstein[3] | **2 102** | **187** | **–** | **–** | **2 289** |
| From subsidiaries | **7 721** | **2 673** | **–** | **–** | **10 394** |
| **Total emoluments** | **7 721** | **2 673** | **395** | **351** | **11 140** |
| 2012 | | | | | |
| Non-executive directors | | | | | |
| EG Dube | – | – | 81 | 76 | 157 |
| Dr FA Sonn | – | – | 110 | 109 | 219 |
| DM Thompson | – | – | 125 | 124 | 249 |
| B Mathabathe | – | – | 48 | 43 | 91 |
| Executive directors | | | | | |
| B Krone | – | – | – | – | – |
| W van Houten[2] | – | – | – | – | – |
| A Brookstein[3] | – | – | – | – | – |
| From the company | – | – | 364 | 352 | 716 |
| Executive directors | | | | | |
| Esorfranki Construction | | | | | |
| B Krone | 2 685 | 225 | – | – | 2 910 |
| W van Houten[2] | 2 222 | 184 | – | – | 2 406 |
| A Brookstein[3] | 1 051 | 175 | – | – | 1 226 |
| From subsidiaries | 5 958 | 584 | – | – | 6 542 |
| **Total emoluments** | 5 958 | 584 | 364 | 352 | 7 258 |

[1] *Appointed 8 October 2012*
[2] *Resigned 30 September 2012*
[3] *Resigned 31 January 2013*

No management, consulting, technical or other fees directly or indirectly, including payments to management companies, have been paid to any directors of the company. There is no commission, gain or profit-sharing arrangement payable to any of the directors.

Prescribed officers' remuneration is outlined on page 52.

## 35. Risk management

### Overview

- Credit risk;
- Liquidity risk; and
- Market risk.

The risk exposure is addressed below and has not changed from the previous reporting period.

This note presents information about the group's and company's exposure to each of the above risks, the group's and company's objectives, policies and processes for measuring and managing risk, and the group's and company's management of capital. Further quantitative disclosures are included throughout these consolidated and separate financial statements.

The board of directors has overall responsibility for the establishment and oversight of the group's and company's risk management framework. The risk management policies are established to identify and analyse the risks faced by the group and company, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The group and company aim to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

The Audit and Risk Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework. The Audit and Risk Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

### Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables.

*Trade and other receivables*

The exposure to credit risk is influenced mainly by the counterparties' individual risk characteristics as an end-user customer. The Tender Committee, established in terms of its risk policies and procedures, is mandated to review significant new customers and counterparties prior to submission of any bid or tender offers and proposals. This committee directs appropriate risk payment conditions and terms in its review of tender proposals and bids. Contract debtors, by geographical location, are grouped, as a concentration of credit risk, and monitored monthly by the Executive Management Committee. When trading in other African countries, the group addresses the credit risk by mainly trading with existing customers. In addition, large upfront payments and guarantees are requested in order to minimise exposure.

A significant number of the group's customers have been transacting with the group for a number of years, and losses have occurred infrequently. In monitoring customer credit risk, customers are mainly grouped according to their geographical location, whilst other credit characteristics such as ageing profile, maturity and existence of previous financial difficulties are also considered. Customers classed as "high risk" are placed on a restrictive customer list and future contracts are entered into on an advance payment or payment guaranteed basis with the approval of the Tender Committee. Contracts entered into contain provisions for payment defaults and retention of title clauses so that in the event of non-payment the group and company may have secured claims. The group and company may require collateral in respect of trade and other receivables.

The group has various cash deposits, forward exchange contracts and financial guarantees which are held with or issued by reputable banking institutions which mitigate credit risk.

### Liquidity risk

Liquidity risk is the risk that the group and company will not be able to meet their financial obligations as they fall due. The policy to manage liquidity is to ensure, as far as possible, that the group and company will always have sufficient liquidity to meet their liabilities when they are due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The group and company use activity based costing to estimate the tendered cost of its products and services. Cash flow models, particularly on larger tender proposals, are reviewed by the Tender Committee. The objective is to ensure that projected cash flows remain positive throughout their estimated duration. Daily and monthly forecast cash flows are monitored to ensure that surplus cash is appropriately invested in optimal treasury call deposits and access finance facilities. Details of the borrowing facilities have been set out in note 20.

## 35. Risk management (continued)

### Market risk

Market risk is the risk that changes in market prices, such as diesel, foreign exchange rates and interest rates, will affect the group's and company's income or the value of its holdings of financial instruments. The objective is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Esor Share Incentive Scheme, a subsidiary of the group, entered into a Zero Cost Collar agreement with Standard Bank. In terms of this agreement, the Scheme bought a Put Option with a strike price of R1,34 per share and sold a Call Option with a strike price of R1,54 per share. The Scheme loaned 5,2 million Esorfranki shares to Standard Bank. The Standard Bank in turn advanced R6,9 million to the scheme. These Call and Put Options expire on 28 February 2014.

*Currency risk*

The group and company are exposed to currency risk on intra-group transactions, capital asset acquisitions and foreign cash resources that are denominated in a currency other than the respective functional currencies of the group entities, primarily the South African Rand.

The group economically hedges all foreign capital asset additions or imports against foreign currency exposures over the estimated delivery lead times. The company uses forward exchange contracts to hedge its currency risk, mostly with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

The principal amounts of the group's and company's foreign cash balances are managed to ensure that its net exposure is kept to acceptable exposure levels through multiple hard currencies, both on and offshore. Foreign treasury call deposits, denominated in currencies other than the underlying operational functional currency, provide an economic hedge.

Gross intra-group receivables are denominated in the functional currency of the entity funding the transaction. These investment levels are monitored to ensure that the net foreign exchange risk exposure is best economically hedged. Cash flows are monitored to minimise unnecessary foreign exchange risk associated with intra-group transactions.

The group's and company's investments in foreign operations are not hedged as those currency positions are considered to be long-term in nature.

*Interest risk*

The group and company are exposed to variable linked interest rate risk on their purchases of capital assets financed through instalment sale agreements. The group and company treasury operates an access finance facility against its exposure on its instalment sale borrowings, thereby economically off-setting its risk to interest rate changes.

### Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. The board of directors monitors the return on capital, which the group defines as total capital and reserves, and the level of dividends to ordinary shareholders. The board's target is for employees, through the Esor Broad-Based Share Ownership Scheme, to hold at least 5% of the Esorfranki group's ordinary shares. Their holding is currently 3,37% (2012: 3,37%). This shareholding is part of the group's Broad-based Black Economic Empowerment strategy.

The board seeks to maintain a balance between the higher returns with higher levels of borrowings and the security afforded by a sound and conservative capital position. The group's target is to achieve a return on weighted average capital of more than 15% (2012: 15%).

The company raised R200 million through a fully underwritten rights offer in March 2011 to strengthen its capital base for anticipated growth opportunities. The company and its subsidiaries were subject to externally imposed capital requirements until 18 March 2011, in terms of the loan financing by Esor Africa following the acquisition of the business of Esorfranki Limited in the 2009 financial year (refer note 15). Share re-purchase and further facilities were subject to its banker's approval whilst these banking facilities were in place.

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| **36. Credit risk** | | | | |
| The maximum exposure to credit risk at the reporting date was: | | | | |
| Contract debtors | **759 206** | 464 429 | **–** | – |
| Sundry debtors | **48 138** | 60 801 | **–** | – |
| Financial assets at fair value through profit or loss | **15** | 5 164 | **–** | – |
| Other investments | **27 726** | – | **–** | – |
| Unsecured intra-group loans | **–** | – | **388 777** | 20 335 |
| Cash and cash equivalents | **67 647** | 96 653 | **7** | 22 |
| | **902 732** | 627 047 | **388 784** | 20 357 |
| The maximum exposure to credit risk by geographical concentration for financial assets at the reporting date was: | | | | |
| South Africa | **748 428** | 464 701 | **388 784** | 20 357 |
| Angola | **33 722** | 42 141 | **–** | – |
| Ghana | **19 511** | – | **–** | – |
| Mozambique | **23 665** | 28 957 | **–** | – |
| Botswana | **9 409** | 6 700 | **–** | – |
| Mauritius | **36 104** | 68 542 | **–** | – |
| Tanzania | **31 106** | 15 706 | **–** | – |
| Other sub–Saharan countries | **526** | 187 | **–** | – |
| Common Monetary Area countries (Swaziland, Namibia) | **261** | 113 | **–** | – |
| | **902 732** | 627 047 | **388 784** | 20 357 |
| The ageing of trade receivables at the reporting date was: | | | | |
| Not past due | **750 357** | 446 866 | **–** | – |
| Past due not impaired | **8 849** | 17 563 | **–** | – |
| Past due and impaired | **57 975** | 49 723 | **–** | – |
| | **817 181** | 514 152 | **–** | – |
| The movement in the allowance for impairment in respect of trade receivables during the year was as follows: | | | | |
| Balance beginning of year | **49 723** | 34 987 | **–** | – |
| Impairment loss raised | **8 252** | 14 736 | **–** | – |
| Balance at end February | **57 975** | 49 723 | **–** | – |

Based on historic default rates, the group believes that no further impairment allowance, as detailed above, is necessary in respect of trade receivables not past due or past due. The ageing of contract debtors is affected directly by the measurement quantities claimed on interim certificates which are subject to re-measurement and interim adjustments by the customer or the customer's representative.

The maximum exposure to credit risk of trade receivables to significant customers at the reporting date was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Customer | | | | |
| Eskom Holdings SOC Limited | **74 306** | 40 550 | **–** | – |
| Kathu Property Developers Proprietary Limited | **51 305** | – | **–** | – |
| Ethekwini Municipality | **12 074** | – | **–** | – |
| Department of Transport | **26 857** | 10 497 | **–** | – |
| Rand Water | **35 550** | 29 229 | **–** | – |

## 36. Credit risk (continued)

The group and company may request certain clients to provide independent reputable bank guarantees, or advance payments, as collateral against credit risk, in respect of contracts concluded. The objective of such collateral is to counter the risk of non-payment by the group's and company's contract debtors.

The processes described above are followed by the group and company to manage credit risk before credit is granted to the customers on projects.

## 37. Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>R'000 | 2012<br>R'000 | 2013<br>R'000 | 2012<br>R'000 |
| *Non-derivative financial liabilities* | | | | |
| Secured borrowings | | | | |
| Carrying amount | **447 988** | 285 834 | **202 500** | – |
| Contractual cash flows | **506 408** | 320 968 | **218 700** | – |
| One year or less | **79 481** | 111 120 | **–** | – |
| Two to five years | **426 927** | 209 848 | **218 700** | – |
| Trade and other payables | | | | |
| Carrying amount | **444 447** | 335 982 | **537** | 753 |
| Contractual cash flows | **444 447** | 335 982 | **537** | 753 |
| One year or less | **444 447** | 335 982 | **537** | 753 |
| Other financial liabilities* (outside scope of IAS 39) | | | | |
| Carrying amount | **49 369** | 85 205 | **–** | – |
| Contractual cash flows | **49 369** | 85 205 | **–** | – |
| One year or less | **49 369** | 85 205 | **–** | – |
| *Unsecured loans* | | | | |
| Carrying amount | **–** | – | **–** | 63 482 |
| Contractual cash flows | **–** | – | **–** | 63 482 |
| One year or less | **–** | – | **–** | 63 482 |
| *Total non-derivative financial liabilities* | | | | |
| Carrying amount | **977 800** | 707 021 | **203 037** | 64 235 |
| Contractual cash flows | **1 036 220** | 742 155 | **219 237** | 64 235 |
| One year or less | **609 293** | 532 307 | **537** | 64 235 |
| Two to five years | **426 927** | 209 848 | **218 700** | – |

** Other financial liabilities include retention creditors, advance payments received and value-added tax*

There are no defaults/breaches in respect of long-term loans payable.

## 38. Currency risk

**Exposure to currency risk**

The group's and company's exposure to foreign exchange risk was as follows at the reporting date:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Gross exposure in the statement of financial position: | | | | |
| Cash and cash equivalents | | | | |
| USD | **49 474** | 16 149 | **–** | – |
| GBP | **1** | – | **–** | – |
| BWP | **–** | 1 986 | **–** | – |
| GHS | **3 641** | – | **–** | – |
| Other | **6 597** | 33 462 | **–** | – |
| | **59 713** | 51 597 | **–** | – |

Amounts owing to subsidiaries and branches are eliminated on consolidation. However, these amounts do impact profit or loss within the group and company's financial statements resulting from changes in foreign exchange rates. Exposure to currency risk occurs when entities in the group owe amounts to other group entities in currencies denominated in other than their functional currency.

| Currency code | Description |
|---|---|
| USD | United States Dollar |
| GBP | Great British Pound |
| BWP | Botswana Pula |
| MUR | Mauritian Rupee |
| GHS | Ghanaian Cedi |
| ZAR | South African Rand |
| Other | Mozambican Metical/Tanzanian Shilling/Nigerian Naira/Zambian Kwacha/Angolan Kwanza/Euro |

The following significant exchange rates applied during the year:

| Group and company | 2013 Average rate | 2013 Spot rate | 2012 Average rate | 2012 Spot rate |
|---|---|---|---|---|
| *Denomination* | | | | |
| Tanzanian Shilling | **188,2744** | **178,6225** | 213,8387 | 210,6040 |
| United States Dollar | **8,3728** | **8,8384** | 7,3867 | 7,6595 |
| Great British Pound | **13,2821** | **13,4047** | 11,7879 | 11,8993 |
| Ghanaian Cedi | **4,6512** | **4,6168** | – | – |
| Mauritian Rupee | **3,6246** | **3,4702** | 3,8929 | 3,8741 |
| Mozambican Metica | **3,4300** | **3,3600** | 3,8600 | 3,6800 |
| Botswana Pula | **1,0839** | **1,1002** | 1,0627 | 1,0487 |

## 38. Currency risk (continued)

### Exposure to currency risk

**Sensitivity analysis**

A 10% strengthening of the ZAR against foreign currencies at the reporting date would have decreased profit or loss (after tax) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012. The translation of the foreign operations is affected by movements in the exchange rate which directly impacts on the group's and company's statement of comprehensive income.

A 10% weakening of the ZAR against the above currencies at reporting date would have had an equal but opposite effect on profit or loss (after tax) by the amounts shown below:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Effect on profit for all currencies | **4 299** | 7 476 | **–** | – |
| Effect on profit/(loss) on significant currencies: | | | | |
| US Dollar | **3 562** | (1 186) | **–** | – |
| Angolan Kwanza | **373** | – | **–** | – |
| Ghanaian Cedis | **262** | – | **–** | – |
| Seychelle Rupee | **53** | – | **–** | – |
| Nigerian Naira | **45** | – | **–** | – |
| Euro | **4** | – | **–** | – |
| Mauritian Rupee | **–** | 1 304 | **–** | – |
| Tanzanian Shillings | **–** | 792 | **–** | – |
| Botswana Pula | **–** | 522 | **–** | – |
| Mozambican Metical | **–** | (153) | **–** | – |
| Effect on profit on significant currencies | **4 299** | 1 279 | **–** | – |

| | Group 2013 R'000 | Group 2012 R'000 | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|---|---|
| **39. Interest rate risk** | | | | |
| At the reporting date the interest rate profile of the group's and company's interest-bearing financial instruments was: | | | | |
| **Fixed rate instruments** | | | | |
| Financial assets | **–** | – | **–** | – |
| Financial liabilities | **(7 551)** | – | **–** | – |
| | **(7 551)** | – | **–** | – |
| **Variable rate instruments** | | | | |
| Financial assets | **91 252** | 96 653 | **7** | 22 |
| Financial liabilities | **(477 926)** | (288 881) | **(202 500)** | – |
| | **(385 674)** | (192 228) | **(202 493)** | 22 |

**Cash flow sensitivity analysis for fixed and variable rate instruments**

An increase of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss (after tax) by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis was performed on the same basis for 2012. A decrease in interest rates would have an equal but opposite effect on profit or loss.

| | Group 2013 R'000 | Group 2012 R'000 | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|---|---|
| Profit or loss | | | | |
| Fixed rate instruments | **54** | – | **–** | – |
| Variable rate instruments | **(2 777)** | (1 384) | **–** | 1 |
| | **(2 723)** | (1 384) | **–** | 1 |

## 40. Classification of financial instruments

The table below sets out the group's and company's classification of each class of financial assets and liabilities, and their fair values.

The fair value of all instruments is estimated at its carrying value as these instruments are generally short-term in nature and thus carrying amount approximates fair value.

| | Loans and receivables R'000 | Liabilities at amortised cost R'000 | Financial assets and liabilities at fair value through profit or loss R'000 | Other financial assets and liabilities* R'000 | Total carrying amount R'000 | Fair value R'000 |
|---|---|---|---|---|---|---|
| **Group 2013** | | | | | | |
| *Financial assets* | | | | | | |
| Trade and other receivables | **636 161** | **–** | **15** | **190 537** | **826 713** | **826 713** |
| Cash and cash equivalents | **63 526** | **–** | **–** | **–** | **63 526** | **63 526** |
| Other | **27 726** | **–** | **3** | **–** | **27 729** | **27 729** |
| | **727 413** | **–** | **18** | **190 537** | **917 968** | **917 968** |
| *Financial liabilities* | | | | | | |
| Non-current portion of secured borrowings | **–** | **368 507** | **–** | **–** | **368 507** | **368 507** |
| Trade and other payables | **–** | **422 719** | **–** | **71 097** | **493 816** | **493 816** |
| Current portion of secured borrowings | **–** | **79 481** | **–** | **–** | **79 481** | **79 481** |
| | **–** | **870 707** | **–** | **71 097** | **941 804** | **941 804** |

** Outside the scope of IAS 39*

ANNUAL FINANCIAL STATEMENTS

## 40. Classification of financial instruments (continued)

| | Loans and receivables R'000 | Liabilities at amortised cost R'000 | Financial assets and liabilities at fair value through profit or loss R'000 | Other financial assets and liabilities* R'000 | Total carrying amount R'000 | Fair value R'000 |
|---|---|---|---|---|---|---|
| Group 2012 | | | | | | |
| *Financial assets* | | | | | | |
| Trade and other receivables | 409 165 | – | 3 873 | 116 065 | 529 103 | 529 103 |
| Investments | 96 653 | – | – | – | 96 653 | 96 653 |
| Cash and cash equivalents | – | – | 1 291 | – | 1 291 | 1 291 |
| | 505 818 | – | 5 164 | 116 065 | 627 047 | 627 047 |
| *Financial liabilities* | | | | | | |
| Non-current portion of secured borrowings | – | 179 911 | – | – | 179 911 | 179 911 |
| Trade and other payables | – | 335 982 | – | 85 205 | 421 187 | 421 187 |
| Current portion of secured borrowings | – | 105 923 | – | – | 105 923 | 105 923 |
| | – | 621 816 | – | 85 205 | 707 021 | 707 021 |

| | Loans and receivables R'000 | Liabilities at amortised cost R'000 | Financial assets and liabilities at fair value through profit or loss R'000 | Other financial assets and liabilities* R'000 | Total carrying amount R'000 | Fair value R'000 |
|---|---|---|---|---|---|---|
| **Company 2013** | | | | | | |
| *Financial assets* | | | | | | |
| Trade and other receivables | **5 213** | **–** | **–** | **–** | **5 213** | **5 213** |
| Unsecured loans | **388 777** | **–** | **–** | **–** | **388 777** | **388 777** |
| Cash and cash equivalents | **7** | **–** | **–** | **–** | **7** | **7** |
| | **393 997** | **–** | **–** | **–** | **393 997** | **393 997** |
| *Financial liabilities* | | | | | | |
| Trade and other payables | **–** | **535** | **–** | **–** | **535** | **535** |
| Secured borrowings | **–** | **202 500** | **–** | **–** | **202 500** | **202 500** |
| | **–** | **203 035** | **–** | **–** | **203 035** | **203 035** |
| Company 2012 | | | | | | |
| *Financial assets* | | | | | | |
| Unsecured loans | 20 335 | – | – | – | 20 335 | 20 335 |
| Cash and cash equivalents | 22 | – | – | – | 22 | 22 |
| | 20 357 | – | – | – | 20 357 | 20 357 |
| *Financial liabilities* | | | | | | |
| Trade and other payables | – | 753 | – | – | 753 | 753 |
| Unsecured loans | – | 63 482 | – | – | 63 482 | 63 482 |
| | – | 64 235 | – | – | 64 235 | 64 235 |

* *Outside the scope of IAS 39*

## 40. Classification of financial instruments (continued)

### Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair value of financial instruments reflected in the table above:

### Derivatives

The fair values of derivative instruments are determined with reference to the quoted market prices of the relevant instrument at year-end.

Fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

### Non-derivative financial liabilities: Secured borrowings and shareholder loans

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Secured borrowings are at variable rates linked to the prime rate of interest and thus the carrying value on such instruments would approximate the fair value.

### Trade and other receivables

The fair value of intra-group and third party trade and other receivables is estimated at its carrying value as these instruments are short-term in nature and thus carrying amount approximates fair value.

### Trade and other payables

The fair value of intra-group and third party trade and other payables is estimated at its carrying value as these instruments are short-term in nature and thus carrying amount approximates fair value.

### Investments

The fair value of third party investments is estimated at its carrying value as these instruments are short-term in nature and thus carrying amount approximates fair value.

### Unsecured loans

The fair value of unsecured loans is estimated at its carrying value as these loans are short-term in nature and thus carrying amount approximates fair value.

## 41. Related parties

During the year the following transactions took place with subsidiaries and related parties. Loan balances with these subsidiaries and related parties are shown in note 12.

| | | Group | | Company | |
|---|---|---|---|---|---|
| Party | Name of transaction | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Balekane Construction (Pty) Limited | Trade receivables | **25 118** | 27 462 | **–** | – |
| Esorfranki Pipelines (Pty) Limited | Dividends received | **–** | – | **32 831** | – |
| Esorfranki Civils (Pty) Limited | Dividends received | **–** | – | **206 876** | – |
| Esorfranki Plant (Pty) Limited | Interest received | **–** | – | **1 158** | – |
| Esorfranki Construction (Pty) Limited | Interest received | **–** | – | **11 647** | – |

Transactions with jointly controlled operations have been disclosed in note 32. Directors' emoluments are disclosed in note 34.

## 42. Investments in subsidiaries

| | Share capital | | Holding | | Cost | |
|---|---|---|---|---|---|---|
| | 2013 R | 2012 R | 2013 % | 2012 % | 2013 R'000 | 2012 R'000 |
| Brookmay Properties (Pty) Limited 100 ordinary shares of R1 each at cost | **100** | 100 | **100** | 100 | **5 492** | 5 492 |
| Esor Africa (Pty) Limited 102 ordinary shares of R1 each at cost | **102** | 102 | **100** | 100 | **6 855** | 6 855 |
| Esorfranki Construction Limited 300 ordinary shares of R1 each at cost | **300** | 300 | **100** | 100 | **669 702** | 546 378 |
| Esorfranki Civils (Pty) Limited 100 ordinary shares of R1 each at cost | **100** | 100 | **100** | 100 | ***** | 116 120 |
| Esorfranki Pipelines (Pty) Limited 1 000 ordinary shares of R1 each at cost | **1 000** | 1 000 | **100** | 100 | **1** | 4 787 |
| Esorfranki Property Developments (Pty) Limited | **100** | – | **100** | – | ***** | – |
| | | | | | **682 050** | 679 632 |

** Less than R1 000*

For transactions under common control, an accounting policy choice in respect of consolidated and separate financial statements, is to be applied consistently to all common control transactions, either:

1. Book value (carry over basis), on the basis that the investment simply has been moved from one part of the group to another; or
2. IFRS 3 accounting on the basis that the acquired is a separate entity in its own right, and should not be confused with the economic group as a whole.

Esorfranki has made the accounting policy choice of using the Book Value method and it is thus appropriate to transfer a portion of investments from Esorfranki Civils (Pty) Limited, Esor Africa (Pty) Limited and Esorfranki Pipelines (Pty) Limited into Esorfranki Construction (Pty) Limited since the operations of these companies were sold into Esorfranki Construction (Pty) Limited.

Refer note 45 for further information on subsidiary companies.

## 43. Commitments

### Leases

The group leases certain of its land and buildings, vehicles and office equipment for periods of up to a maximum of 10 years. At year-end, the minimum lease payments due on operating leases were as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Group | Within one year R'000 | Within two to five years R'000 | Within one year R'000 | Within two to five years R'000 |
| Land and buildings | **1 296** | **570** | 4 019 | 1 056 |
| Vehicles | **3 114** | **4 798** | 2 401 | 4 013 |
| Office equipment | **273** | **762** | 546 | 259 |
| | **4 683** | **6 130** | 6 966 | 5 328 |

### Capital commitments

**Group**

At year-end, plant and equipment with a value of R6,4 million (2012: R0,5 million) had been authorised and contracted for. Further capital expenditure to the value of R8,7 million (2012: R199,0 million) had been authorised but was not yet contracted for. These assets will be utilised to expand the operating capacity of the group. The purchase of these assets will be funded through the group's borrowing facilities as well as future debt instruments.

**Company**

The company has not authorised or contracted for any capital expenditure.

## 44. Segmental analysis

### Operating segments

The group has three reportable segments, as described in the accounting policy note 2.22, which are the group's strategic business units.

| | Geotechnical | | Civils | | Pipelines | | Corporate and eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| External revenue | **787 857** | 723 475 | **1 214 549** | 820 396 | **323 552** | 227 821 | **–** | – | **2 325 958** | 1 771 692 |
| Inter segment revenue | **–** | 10 617 | **8 713** | 3 655 | **–** | – | **(8 713)** | (14 272) | **–** | – |
| Segment revenue | **787 857** | 734 092 | **1 223 262** | 824 051 | **323 552** | 227 821 | **(8 713)** | (14 272) | **2 325 958** | 1 771 692 |
| Segment result | | | | | | | | | | |
| Profit/(loss) before interest and taxation | **76 105** | 50 253 | **76 525** | 25 376 | **30 583** | 2 234 | **(32 219)** | (24 717) | **150 994** | 53 146 |
| Net finance (cost)/income | **(12 663)** | (5 791) | **(22 286)** | (11 456) | **(157)** | 1 843 | **(9 209)** | (8 103) | **(44 315)** | 23 507 |
| Taxation | **(1 239)** | (921) | **(14 859)** | (8 242) | **(8 883)** | (4 407) | **6 012** | 2 147 | **(18 969)** | (11 423) |
| Segment profit/(loss) | **62 203** | 43 541 | **39 380** | 5 678 | **21 543** | (330) | **(35 416)** | (30 673) | **87 710** | 18 216 |
| Segment assets | **734 464** | 722 746 | **963 994** | 583 537 | **191 552** | 84 007 | **353 771** | 426 179 | **2 243 781** | 1 816 469 |
| Segment liabilities | **325 267** | 321 438 | **872 001** | 531 512 | **169 549** | 83 817 | **(84 276)** | (57 730) | **1 190 519** | 879 037 |
| Capital and non-cash items | | | | | | | | | | |
| Additions to property, plant and equipment | **42 814** | 51 100 | **132 407** | 205 317 | **17 083** | 620 | **1 626** | 685 | **193 930** | 257 722 |
| Depreciation | **27 817** | 21 686 | **61 959** | 45 452 | **4 082** | 2 817 | **13 766** | 9 555 | **107 624** | 79 510 |
| Impairment loss | **–** | – | **–** | – | **–** | – | **8 757** | – | **8 757** | – |
| Number of employees | **1 169** | 1 191 | **2 701** | 1 820 | **763** | 373 | **21** | 18 | **4 654** | 3 402 |

Revenue generated from significant customers includes:

| | | Revenue | |
|---|---|---|---|
| Customer | Business unit | 2013 R'000 | 2012 R'000 |
| Eskom Holdings SOC Limited | Geotechnical and Civils | **364 594** | 182 261 |
| Bakwena Platinum Corridor Concessionaire (Pty) Limited | Civils | **119 385** | – |
| Rand Water | Pipelines | **117 250** | 126 469 |
| Kathu Property Developers (Pty) Limited | Civils | **117 248** | – |
| Ethekwini Municipality | Pipelines | **57 877** | – |
| Kinaxixi Projects SA | Geotechnical | **48 721** | – |
| SANRAL | Civils | **–** | 188 657 |

| | South Africa | | Other regions | | Consolidated | |
|---|---|---|---|---|---|---|
| Geographical information | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Total revenue from external customers | **1 961 439** | 1 497 994 | **364 519** | 273 698 | **2 325 958** | 1 771 692 |
| Property, plant and equipment | **646 915** | 625 352 | **158 473** | 111 960 | **805 388** | 737 312 |

A separate segment report has not been prepared for the company as it had no trading operations.

## 45. Interest in subsidiaries

The subsidiaries of Esorfranki Limited are involved in the following principal activities:

| | Country of incorporation | Nature of business | Percentage held 2013 | Percentage held 2012 |
|---|---|---|---|---|
| **Directly held** | | | | |
| Brookmay Properties (Pty) Limited* | South Africa | Property investment | **100** | 100 |
| Esor Africa (Pty) Limited* | South Africa | Geotechnical | **100** | 100 |
| Esorfranki Civils (Pty) Limited* | South Africa | Civils | **100** | 100 |
| Esorfranki Construction (Pty) Limited* | South Africa | Geotechnical | **100** | 100 |
| Esorfranki Pipelines (Pty) Limited* | South Africa | Pipelines | **100** | 100 |
| Esorfranki Property Developments (Pty) Limited | South Africa | Property development | **100** | – |
| **Indirectly held** | | | | |
| Esor Broad Based Share Ownership Scheme | South Africa | Employee share scheme | **100** | – |
| Esor Share Incentive Scheme | South Africa | Employee share scheme | **100** | 100 |
| Esorfranki DRC SPRL | DRC | Geotechnical | **100** | 100 |
| Esorfranki Plant (Pty) Limited | South Africa | Plant investment | **100** | 100 |
| Frankipile Botswana (Pty) Limited | Botswana | Geotechnical | **100** | 100 |
| Frankipile Ghana Limited | Ghana | Geotechnical | **100** | 100 |
| Frankipile International Projects Limited | Mauritius | Geotechnical | **100** | 100 |
| Frankipile Lesotho (Pty) Limited | Lesotho | Geotechnical | **100** | 100 |
| Frankipile Mauritius International Limited | Mauritius | Geotechnical | **100** | 100 |
| Frankipile Mauritius (Seychelles) Limited | Seychelles | Geotechnical | **100** | 100 |
| Frankipile Mozambique Limitada | Mozambique | Geotechnical | **100** | 100 |
| Frankipile Namibia (Pty) Limited | Namibia | Geotechnical | **100** | 100 |
| Frankipile Swaziland (Pty) Limited | Swaziland | Geotechnical | **100** | 100 |
| GeoFranki (West Africa) Limited | Nigeria | Geotechnical | **60** | 60 |
| Nike Enterprises (PVT) Limited | Zimbabwe | Properties investment | **100** | 100 |
| Safdev Land 1 (Pty) Limited | South Africa | Property development | **100** | – |
| Zimfranki Projects (PVT) Limited | Zimbabwe | Civil engineering, pipelines and geotechnical | **100** | 100 |

** Further information on these subsidiaries can be found in note 42*

## 45. Interest in subsidiaries (continued)

| | Company 2013 R'000 | Company 2012 R'000 |
|---|---|---|
| **The profit/(loss) after taxation attributable to the subsidiaries** | | |
| Brookmay Properties (Pty) Limited | **(5 513)** | (18) |
| Esor Africa (Pty) Limited | **2 560** | (2 146) |
| Esor Broad-Based Share Ownership Scheme | **42** | – |
| Esor Share Incentive Scheme | **(166)** | (8 597) |
| Esorfranki Construction (Pty) Limited | **80 751** | (4 457) |
| Subsidiaries of Esorfranki Construction (Pty) Limited | **42 688** | 31 515 |
| Esorfranki Plant (Pty) Limited | **(13 253)** | 2 975 |
| Esorfranki Civils (Pty) Limited | **–** | 257 |
| Esorfranki Pipelines (Pty) Limited | **–** | (238) |
| | **107 109** | 19 291 |
| Aggregate profits | **126 041** | 34 747 |
| Aggregate losses | **(18 932)** | (15 456) |
| **Loans to/(from) subsidiaries** | | |
| Esor Africa (Pty) Limited | **17 856** | 17 957 |
| Esor Share Incentive Trust | **2 378** | 2 378 |
| Esorfranki Construction (Pty) Limited | **368 543** | (63 482) |
| | **388 777** | (43 147) |

## 46. Guarantees

The company provided a parent company guarantee to Eskom for the performance by Esorfranki Civils in terms of its award for the construction of underground terraces at the Kusile Power Station. The maximum exposure for this guarantee is R52 million (2012: R62 million), being 10% of the award contract value. This guarantee is due to expire in May 2014.

The company further provided a financial guarantee for the obligations of Esorfranki Property Developments Proprietary Limited in relation to the redemption price outstanding on the preference shares issued. Refer note 16.

# Analysis of shareholders

| | |
|---|---|
| **Company:** | Esorfranki Limited |
| **Register date:** | 1 March 2013 |
| **Issued share capital:** | 395 185 430 |

| Shareholder spread | Number of shareholdings | % | Number of shares | % |
|---|---|---|---|---|
| 1 – 1 000 shares | 454 | 16,38 | 267 702 | 0,07 |
| 1 001 – 10 000 shares | 1 261 | 45,49 | 5 933 299 | 1,50 |
| 10 001 – 100 000 shares | 798 | 28,79 | 26 600 799 | 6,73 |
| 100 001 – 1 000 000 shares | 190 | 6,85 | 59 193 025 | 14,98 |
| 1 000 001 shares and over | 69 | 2,49 | 303 190 605 | 76,72 |
| **Totals** | **2 772** | **100,00** | **395 185 430** | **100,00** |
| **Distribution of shareholders** | | | | |
| Banks | 4 | 0,14 | 489 981 | 0,12 |
| Close Corporations | 45 | 1,62 | 3 632 670 | 0,92 |
| Empowerment | 2 | 0,07 | 16 017 654 | 4,05 |
| Endowment Funds | 12 | 0,43 | 1 132 440 | 0,29 |
| Individuals | 2 299 | 82,94 | 113 387 474 | 28,69 |
| Insurance Companies | 14 | 0,51 | 18 126 496 | 4,59 |
| Investment Companies | 8 | 0,29 | 3 026 855 | 0,77 |
| Medical Schemes | 6 | 0,22 | 3 345 651 | 0,85 |
| Mutual Funds | 51 | 1,84 | 147 405 514 | 37,30 |
| Nominees and Trusts | 174 | 6,28 | 8 939 700 | 2,26 |
| Other Corporations | 29 | 1,05 | 722 864 | 0,18 |
| Private Companies | 64 | 2,31 | 25 057 865 | 6,34 |
| Public Companies | 2 | 0,07 | 49 800 | 0,01 |
| Retirement Funds | 60 | 2,16 | 52 109 543 | 13,19 |
| Share Trust | 2 | 0,07 | 1 740 923 | 0,44 |
| **Totals** | **2 772** | **100,00** | **395 185 430** | **100,00** |
| **Non-public/public shareholders** | | | | |
| Non-public shareholders | 7 | 0,25 | 18 030 721 | 4,56 |
| Directors and associates of the company holdings | 5 | 0,18 | 16 289 798 | 4,12 |
| Share Trust | 2 | 0,07 | 1 740 923 | 0,44 |
| Public shareholders | 2 758 | 99,75 | 377 154 709 | 95,44 |
| **Totals** | **2 772** | **100,00** | **395 185 430** | **100,00** |
| **Beneficial shareholders holding 3% or more** | | | | |
| Coronation Fund Managers | | | 42 628 725 | 10,79 |
| Sanlam | | | 35 428 669 | 8,97 |
| Investec | | | 30 632 247 | 7,75 |
| Krone, B | | | 13 509 394 | 3,42 |
| Esor Broad Based Share Ownership Scheme | | | 13 312 250 | 3,37 |
| Investment Solutions | | | 13 245 081 | 3,35 |
| Eskom Pension & Provident Fund | | | 12 870 614 | 3,26 |
| Transnet Pension Fund | | | 12 519 944 | 3,17 |
| **Totals** | | | **174 146 924** | **44,07** |
| **Institutional Holding 5% or more** | | | | |
| Coronation Fund Managers | | | 106 530 089 | 26,96 |
| Investec Asset Management | | | 44 159 768 | 11,17 |
| Sanlam Investment Management | | | 38 289 809 | 9,69 |
| **Totals** | | | **188 979 666** | **47,82** |

# Shareholders' diary

| | |
|---|---|
| Financial year end | February |
| Preliminary annual results announcement | 27 May 2013 |
| Annual report posted | 27 May 2013 |
| Annual general meeting | 28 June 2013 |
| Interim results announcement | November |

# Notice of annual general meeting

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

Notice is hereby given that the annual general meeting of the shareholders of Esorfranki will be held in the boardroom of the company at 30 Activia Road, Activia Park, Germiston on Friday, 28 June 2013, at 10h00 (SA time), to deal with the business as set out below and to consider and, if deemed appropriate, pass the ordinary and special resolutions set out in this notice.

Kindly note that in terms of section 63(1) of the Companies Act of 2008, meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to participate in or vote at the annual general meeting. Forms of identification that will be accepted include original and valid identity documents, driver's licenses and passports.

The board of directors of the company has determined that the record date in terms of section 59(1) of the Companies Act, No 71 of 2008, as amended ("the Companies Act") for the purpose of determining which shareholders of the company are entitled to receive notice of the annual general meeting is Friday, 24 May 2013 and the record date for purposes of determining which shareholders of the company are entitled to participate in and vote at the annual general meeting is Friday, 21 June 2013. Accordingly, the last day to trade in order to be eligible to vote at the annual general meeting is Friday, 14 June 2013.

For the purpose of approving resolutions, the support of more than 50% (fifty percent) of the voting rights exercised on the resolution by shareholders present in person, or represented by proxy, at the annual general meeting is required, unless otherwise indicated.

Shareholders are referred to the explanatory notes as attached to the notice of the annual general meeting for additional information, including abbreviated profiles of the directors standing for re-election.

## Special resolution number 1

### General authority to the company to repurchase its own shares

"RESOLVED as a special resolution that the company, or a subsidiary, be and hereby is authorised, by way of general authority as contemplated in section 48 of the Companies Act to acquire from time to time any of the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, but subject to the Memorandum of Incorporation of the company, the provisions of the Companies Act and the Listings Requirements of the JSE Limited ("JSE").

It is recorded that the Listings Requirements of the JSE require, *inter alia,* that the company or a subsidiary may make a general acquisition of shares issued by the company only if:

- the repurchase of the ordinary shares is effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
- at any point in time the company may only appoint one agent to effect any repurchases on its behalf;
- this general authority shall only be valid until the next annual general meeting of the company, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of the general authority to repurchase shares;
- the maximum price at which the shares may be acquired will be 10% (ten percent) above the weighted average market value at which such ordinary shares are traded on the JSE, for such ordinary shares for the 5 (five) business days immediately preceding the date on which the transaction is effected;
- any such acquisition shall not, in any one financial year, exceed 10% (ten percent) of the company's issued ordinary shares or 39 518 543 million (thirty nine million five hundred and eighteen thousand and five hundred and forty three) shares as at the passing of the general authority;
- the company or its subsidiaries may not repurchase ordinary shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period;
- should derivatives be used, such authority is limited to paragraphs 5.72(c) and (d) and 5.84(a) of the JSE Listings Requirements;
- this authority will only be utilised to the extent that the directors, after considering the maximum effect of such repurchase, for a period of at least 12 (twelve) months after the date of the notice of the annual general meeting are of the opinion that:

– the company and the Esorfranki group will be able to repay its debts in the ordinary course of business;
– the assets of the company and the Esorfranki group fairly valued according to International Financial Reporting Standards and on a basis consistent with the last financial year of the company ended 28 February 2013, exceed its liabilities;
– the company and the Esorfranki group have adequate share capital and reserves;
– the company and the Esorfranki group have sufficient working capital for their requirements;

- the directors have passed a resolution authorising the repurchase, resolving that the company has satisfied the Solvency and Liquidity Test as defined in the Companies Act and resolving that since the Solvency and Liquidity Test had been applied, there have been no material changes to the financial position of the group;
- when the company has cumulatively repurchased 3% (three percent) of the initial number of the relevant class of securities, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter, an announcement must be made. Such announcement must be made as soon as possible and in any event by not later than 08:30 on the second business day following the day on which the relevant threshold is reached or exceeded; and
- the company may not enter the market to proceed with the repurchase until Esorfranki's sponsor, Vunani Corporate Finance, has confirmed the adequacy of Esorfranki's working capital for the purposes of undertaking a repurchase of shares, in writing to the "JSE".

In order for this special resolution number 1 to be adopted, the support of at least 75% (seventy-five per cent) of the total number of votes, which the shareholders present or represented by proxy at this meeting are entitled to cast, is required.

### Additional disclosure requirements required in terms of paragraph 11.26 of the JSE Listings Requirements

*Material changes*
Other than the facts and developments set out in this Integrated Report, no material changes have occurred since the end of the last financial period, being 28 February 2013, and the date of this notice of annual general meeting.

*Directors' responsibility statement*
The directors of Esorfranki Limited as set out on page 29 of the Integrated Report:
- have considered all the statements of fact and opinion in the Integrated Report to which this notice is attached;
- accept, individually and collectively, full responsibility for the accuracy of such statements; and
- declare that, to the best of their knowledge and belief, such statements are correct and no material facts have been omitted, the omission of which would make any such statements false or misleading and that they have made all reasonable enquiries to ascertain such facts and that this notice contains all information required by law and the JSE Listings Requirements.

*Litigation statement*
Esorfranki Limited nor its subsidiaries is party to any legal or arbitration proceedings (including such proceedings which are pending or (threatened) which may have or have had in the previous 12 (twelve) months a material effect on the group's financial position.

### Other disclosure in terms of paragraph 11.26(b) of the JSE Listings Requirements

The JSE Listings Requirements require the following disclosures, which are contained in the Integrated Report:

| **Requirements** | **Reference** |
|---|---|
| Directors | Page 29 |
| Major shareholders | Page 120 |
| Directors' interests in securities | Page 68 |
| Share capital of the company | Page 120 and Note 14 |

## Special resolution number 2

### Approval of non-executive directors' fees

"RESOLVED, as a special resolution:
- that the company be and is hereby authorised to pay remuneration to its directors for their services as directors, as contemplated in section 66(8) and 66(9) of the Companies Act of 2008; and
- that the remuneration structure and amounts as set out below, be and is hereby approved until such time as rescinded or amended by shareholders by way of a special resolution:

SHAREHOLDER INFORMATION

# Notice of annual general meeting (continued)

| Type of fee | Actual meeting fee 2012/13 | Actual meeting fee 2013/14 |
|---|---|---|
| **Board** | | |
| Chairman | R40 450 | R43 300 |
| Board member | R20 250 | R21 650 |
| **Audit Committee** | | |
| Chairman | R26 950 | R28 850 |
| Member | R13 500 | R14 450 |
| **Risk Committee** | | |
| Chairman | R8 430 | R9 025 |
| Member | R5 620 | R6 000 |
| **Human Resources and Nominations Committee** | | |
| Chairman | R16 855 | R18 050 |
| Member | R11 235 | R12 000 |
| **Social and Ethics Committee** | | |
| Member | R5 620 | R6 000 |

In order for this special resolution number 2 to be adopted, the support of at least 75% (seventy-five per cent) of the total number of votes, which the shareholders present or represented by proxy at this meeting are entitled to cast, is required.

## Special resolution number 3

### Authority to provide financial assistance to any company or corporation which is related or inter-related to the company

"RESOLVED as a special resolution that, as a general approval, the company may, in terms of section 45(3)(a)(ii) of the Companies Act, provide any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to it in section 45(1) of the Companies Act) to any related or inter-related company or to any juristic person who is a member of or related to any such company/ies ("related" and "inter-related" will herein have the meaning attributed to it in section 2 of the Companies Act), subject to compliance with the remainder of section 45 of the Companies Act, as the board of directors of the company may deem fit and on the terms and conditions, to the recipient/s, in the form, nature and extent and for the amounts that the board of directors of the company may determine from time to time."

In order for this special resolution number 3 to be adopted, the support of at least 75% (seventy-five per cent) of the total number of votes, which the shareholders present or represented by proxy at this meeting are entitled to cast, is required.

## Presentation of annual financial statements and reports

The consolidated audited annual financial statements for the company and the group, including the Audit Committee Report, the Directors' Report and external Independent Auditor's Report for the year ended 28 February 2013, have been distributed as required and will be presented to shareholders at the annual general meeting.

The consolidated audited annual financial statements, together with the abovementioned reports are set out on pages 65 to 119 of the Integrated Report.

## Report from social and ethics committee

In accordance with Companies Regulation 43(5)(c), issued in terms of the Companies Act of 2008, the chairman of the Social and Ethics Committee, or in the absence of the chairman any member of the committee, will present the committee's report to shareholders at the annual general meeting.

## Ordinary resolution number 1

### Re-appointment of directors

Messrs B Krone and D Thompson retire by rotation and, being eligible, offers themselves for re-election as director of the company and in addition, the appointment of Mr W van Zyl as a director by the board of directors, to be approved and confirmed by shareholders.

Accordingly, shareholders are requested to consider and, if deemed fit, approve the separate ordinary resolutions set out overleaf.

### Ordinary resolution number 1.1

"RESOLVED that the re-appointment of Mr B Krone as an executive director of the company be and is hereby approved."

### Ordinary resolution number 1.2

"RESOLVED that the re-appointment of Mr D Thompson as a non- executive director of the company be and is hereby approved."

### Ordinary resolution number 1.3

"RESOLVED that the appointment of Mr W van Zyl as an executive director of the company be and is hereby approved."

## Ordinary resolution number 2

### Re-appointment of auditors

"RESOLVED that the reappointment of KPMG Incorporated, Registered Auditors, represented by FHC von Eckardstein as the designated auditor, upon the recommendation of the current Audit Committee, as independent auditors of the company be and is hereby approved."

## Ordinary resolution number 3

### Appointment of Audit Committee members for the year ending 28 February 2014

It is proposed that the non-executive directors as indicated below be appointed as members of the Audit Committee.

### Ordinary resolution number 3.1

"RESOLVED that the appointment of Mr E Dube as member of the Audit Committee until the conclusion of the next annual general meeting of the company in 2014, be and is hereby approved."

### Ordinary resolution number 3.2

"RESOLVED that the appointment of Mr D Thompson as member of the Audit Committee until the conclusion of the next annual general meeting of the company in 2014, be and is hereby approved."

### Ordinary resolution number 3.3

"RESOLVED that the appointment of Dr F Sonn as member of the Audit Committee until the conclusion of the next annual general meeting of the company in 2014 be and is hereby approved."

## Ordinary resolution number 4

### Authority to implement the special and ordinary resolutions

"RESOLVED that, any director of the company or the company secretary be and is hereby authorised to do all such things, sign all such documents and take all such actions as may be necessary for or incidental to the implementation of the special and ordinary resolutions as set out in this notice of the annual general meeting."

## Ordinary resolution number 5

### Authority to issue shares

"RESOLVED that the directors be and are hereby authorised to allot and issue at their discretion the unissued but authorised ordinary shares in the share capital of the company and/or grant options to subscribe for the unissued shares, for such purposes and on such terms and conditions as they may determine, provided that such transaction(s) has/have been approved by the JSE Limited, as and when required, and are subject to the JSE Listings Requirements and the Companies Act and shareholders hereby waive any pre-emptive rights in relation thereto.

## Ordinary resolution number 6

### Authority to issue shares for cash

"It is RESOLVED that, in terms of the Listings Requirements of the JSE Limited ("JSE"), the mandate given to the directors of the company in terms of a general authority to issue securities for cash, as and when suitable opportunities arise, be renewed subject to the following conditions:

- that this authority shall only be valid until the next annual general meeting of the company but shall not extend beyond 15 months from the date of this meeting;
- the allotment and issue of the shares must be made to persons qualifying as public shareholders as defined in the Listings Requirements of the JSE and not to related parties;
- the shares, which are the subject of the issue for cash must be of a class already in issue or, where this is not the case, must be limited to such shares or rights that are convertible into a class already in issue;

- that a paid press announcement giving full details, including the impact of the issue on net asset value, net tangible asset value, earnings and headline earnings per share and, if applicable, diluted earnings and diluted headline earnings per share, be published after any issue representing, on a cumulative basis within one financial year, 5% of the number of shares in issue prior to the issue concerned;
- that the issues in aggregate in any one financial year (including the number of any shares that may be issued in future arising out of the issue of options) shall not exceed 15% of the number of shares of the company's issued ordinary share capital; and
- that in determining the price at which an issue of shares for cash will be made in terms of this authority, the maximum discount permitted shall be 10% of the weighted average traded price of the ordinary shares on the JSE, measured over the 30 business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities."

## Ordinary resolution number 7

### Advisory endorsement of the remuneration policy

"RESOLVED to approve, as a non-binding advisory vote, the company's remuneration policy (excluding the remuneration of the non-executive directors for their services as directors and members of board committees) as set out in the Remuneration Report contained in the Integrated Report on pages 52 and 53."

To transact such other business as may be required at an annual general meeting.

## Voting and proxies

The shareholders of the company will be entitled to attend the general meeting and to vote on the resolutions set out above. On a show of hands, every Esorfranki shareholder who is present in person, by proxy or represented at the general meeting shall have one vote (irrespective of the number of shares held in the company), and on a poll, which any shareholder can request, every Esorfranki shareholder shall have for each share held by him/her that proportion of the total votes in the company which the aggregate amount of the nominal value of that share held by him bears to the aggregate of the nominal value of all the shares issued by the company.

In terms of the JSE Listings Requirements any shares currently held by the Esorfranki Share Incentive Trust will not be taken into account in determining the results of voting on special resolution number 1 and ordinary resolution number 6.

### Proxies

An Esorfranki shareholder entitled to attend and vote at the annual general meeting may appoint one or more persons as its proxy to attend, speak and vote in its stead. A proxy need not be a shareholder of the company.

A form of proxy is attached for the convenience of certificated shareholders and "own name" dematerialised shareholders of the company who are unable to attend the annual general meeting, but who wish to be represented thereat. In order to be valid, duly completed forms of proxy must be received by the company's Transfer Secretaries, Computershare Investor Services Proprietary Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), not later than 10:00 on Wednesday, 26 June 2013.

Shareholders' rights regarding proxies in terms of section 58 of the Companies Act are as follows:

(1) At any time, a shareholder of a company may appoint any individual, including an individual who is not a shareholder of that company, as a proxy to:
   (a) participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder; or
   (b) give or withhold written consent on behalf of the shareholder to a decision contemplated in section 60.

(2) A proxy appointment:
   (a) must be in writing, dated and signed by the shareholder; and
   (b) remains valid for:
      (i) one year after the date on which it was signed; or
      (ii) any longer or shorter period expressly set out in the appointment, unless it is revoked in a manner contemplated in sub-section (4)(c), or expires earlier as contemplated in sub-section (8)(d).

(3) Except to the extent that the Memorandum of Incorporation of a company provides otherwise:
   (a) a shareholder of that company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder;
   (b) a proxy may delegate the proxy's authority to act on behalf of the shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
   (c) a copy of the instrument appointing a proxy must be delivered to the company, or to any other person on behalf of the company, before the proxy exercises any rights of the shareholder at a shareholders meeting.

(4) Irrespective of the form of instrument used to appoint a proxy:
   (a) the appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
   (b) the appointment is revocable unless the proxy appointment expressly states otherwise; and
   (c) if the appointment is revocable, a shareholder may revoke the proxy appointment by:
      (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and
      (ii) delivering a copy of the revocation instrument to the proxy, and to the company.

(5) The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of:
   (a) the date stated in the revocation instrument, if any; or
   (b) the date on which the revocation instrument was delivered as required in sub-section (4)(c)(ii).

(7) A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction, except to the extent that the instrument appointing the proxy otherwise provides.

Any shareholder of the company who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the general meeting should he/she decide to do so.

Dematerialised shareholders of the company, other than "own name" dematerialised shareholders of the company, who have not been contacted by their CSDP or broker with regard to how they wish to cast their votes, should contact their CSDP or broker and instruct their CSDP or broker as to how they wish to cast their votes at the company's annual general meeting in order for their CSDP or broker to vote in accordance with such instructions. This must be done in terms of the agreement entered into between such dematerialised shareholders of the company and the relevant CSDP or broker. If your CSDP or broker does not obtain instructions from you, they will be obliged to act in terms of your mandate furnished to them.

### Electronic participation

Should any shareholder wish to participate in the annual general meeting by way of electronic participation, that shareholder should make application in writing (including details as to how the shareholder or its representative can be contacted) to so participate to the transfer secretaries at the address below, to be received by the transfer secretaries at least five business days prior to the annual general meeting in order for the transfer secretaries to arrange for the shareholder (and its representative) to provide reasonably satisfactory identification to the transfer secretaries for the purposes of section 63(1) of the Companies Act, 2008 and for the transfer secretaries to provide the shareholder (or its representative) with details as to how to access any electronic participation to be provided. The company reserves the right to elect not to provide for electronic participation at the annual general meeting in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the company will be borne by the shareholder so accessing the electronic participation. Shareholders are advised that participation in the annual general meeting by way of electronic participation will not entitle a shareholder to vote. Should a shareholder wish to vote at the annual general meeting, he/she may do so by attending and voting at the annual general meeting either in person or by proxy.

By order of the board

iThemba Governance and Statutory Solutions (Pty) Ltd
Company Secretary
Johannesburg

23 May 2013

Registered office, 30 Activia Road, Activia Park, Germiston, 1429
Transfer Secretaries: Computershare Investor Services (Pty) Limited
(Registration number: 2004/003647/07)
Ground Floor, 70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

## Annual general meeting – explanatory notes

### Special resolution number 1 – General authority to repurchase shares

Section 48 of the Companies Act authorises the board of directors of a company to approve the acquisition of its own shares subject to the provisions of section 48 and section 46 having been met. The JSE Listings Requirements require the shareholders of the company to approve the authority to repurchase shares and the approval of a 75% majority of the votes cast by shareholders present or represented by proxy at the annual general meeting for special resolution number 1 to become effective. The directors of the company do not have any specific intentions for utilising this general authority at the date of this annual general meeting

### Special resolution 2 – Directors' remuneration

In terms of section 66(8) and section 66(9) of the Companies Act, a company may pay remuneration to directors for their services as directors unless otherwise provided by the memorandum of incorporation and on approval of shareholders by way of a special resolution. Executive directors are not specifically remunerated for their services as directors but as employees of the company and as such, the resolution as included in the notice requests approval of the remuneration paid to non-executive directors for their services as directors of the company.

### Special resolution 3 – Financial assistance to related and inter-related companies

Section 45(2) of the Companies Act authorises the board to provide direct or indirect financial assistance to a related or inter-related company, subject to sub-sections (3) and (4) of section 45 of the Companies Act and unless otherwise provided in the company's memorandum of incorporation. In terms of section 45(3) of the Companies Act, a special resolution of shareholders is required in these instances. The main purpose of the special resolution as set out in the notice of the meeting is to approve the granting of inter-company loans, a recognised and well known practice, details of which are also set out in the notes to the annual financial statements.

This general authority is necessary for the company to continue making loans to subsidiaries as well as granting letters of support and guarantees in appropriate circumstances. A general authorisation from shareholders avoids the need to refer each instance to shareholders for approval with the resulting time delays and expense. If approved, this general authority will expire at the end of two years. It is, however, the intention to renew the authority annually at the annual general meeting.

### Notifications

Shareholders are hereby notified in terms of section 45(5) of the Companies Act that the board has passed the same resolution to take effect on the passing of this special resolution by shareholders.

Shareholders are also advised that the board is satisfied that after providing the financial assistance, the company will satisfy the solvency and liquidity tests and that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

### Presentation of annual financial statements

At the annual general meeting, the directors must present the annual financial statements for the year ended 28 February 2013 to shareholders, together with the reports of the directors, the audit committee and the auditors. These are contained within the Integrated Report.

### Presentation of report from Social and Ethics Committee

Regulation 43 to the Companies Act of 2008 requires that the Social and Ethics Committee reports to shareholders at the annual general meeting on matters within the committee's mandate.

### Ordinary resolutions numbers 1.1 to 1.3 – Rotation of directors

In accordance with the company's MOI, one third of the directors are required to retire at each annual general meeting and may offer themselves for re-election. In addition, any person appointed to the board of directors following the previous annual general meeting is required to retire and is eligible for election at the next annual general meeting.

Brief biographical details of each of the directors standing for re-election are set out on page 29 of the integrated report of which this notice forms part. below:

# Notice of annual general meeting (continued)

### Ordinary resolution number 2 – Re-appointment of auditors

KPMG Incorporated ("KPMG") has indicated its willingness to continue in office and ordinary resolution 2 proposes the re-appointment of that firm as the company's auditors with effect from 1 March 2013. Section 90(3) of the Companies Act requires the designated auditor to meet the criteria as set out in section 90(2) of the Companies Act. The board of directors of the company is satisfied that both KPMG and the designated auditor meet all relevant requirements and, on recommendation of the audit committee, it is proposed that KPMG be re-appointed.

### Ordinary resolutions numbers 3.1 to 3.3 – Appointment of Audit Committee

In terms of section 94(2) of the Companies Act, a public company must at each annual general meeting elect an audit committee comprising at least three members who are non-executive directors and who meet the criteria of section 94(4) of the Companies Act. Regulation 42 to the Companies Act specifies that one third of the members of the audit committee must have appropriate academic qualifications or experience in the areas as listed in the regulation.

The board of directors of the company is satisfied that the proposed members of the audit committee meet all relevant statutory requirements. The appointment of Messrs B Krone and D Thompson as members of the Audit Committee will be subject to their re-election as directors of the company. As indicated in the Corporate Governance Report forming part of the Integrated Report, the chairman of the board is also proposed for appointment as a member of the audit committee. This is not in full compliance with the recommendations of the King III Report and an explanation for the non-application of this recommendation has been provided in the Integrated Report.

Brief biographical details of Mr D Thompson, Mr E Dube and Dr F Sonn are set out on page 29 of the integrated report, of which this notice forms part.

### Ordinary resolution number 4 – Signing authority

Authority is required to do all such things and sign all documents and take all such action as necessary to implement the resolutions set out in the notice and approved at the annual general meeting. It is proposed that the company secretary and/or any director be authorised accordingly.

### Ordinary resolutions numbers 5 and 6 – Placement and issue of shares for cash

In terms of the Companies Act 71 of 2008 ("the Act"), directors are authorised to allot and issue the unissued shares of the company, unless otherwise provided in the company's Memorandum of Incorporation or in instances as listed in section 41 of the Act. The JSE requires that the Memorandum of Incorporation should provide that shareholders in a general meeting may authorise the directors to issue unissued securities and/or grant options to subscribe for unissued securities as the directors in their discretion think fi t, provided that such transaction(s) has/have been approved by the JSE and are subject to the JSE Listings Requirements. In the absence of the Memorandum of Incorporation as contemplated in the Act, ordinary resolution 4 has been included to confirm directors' authority to issue shares. Directors confirm that there is no specific intention to issue any shares, other than as part of and in terms of the rules of the company's share incentive scheme, as at the date of this notice.

Also, in terms of the JSE Listings Requirements, the authority to issue shares for cash as set out in ordinary resolution 5 requires the approval of a 75% majority of the votes cast by shareholders present or represented by proxy at the annual general meeting for ordinary resolution number 5 to become effective.

### Ordinary resolution number 7 – Remuneration philosophy and policy

The King Report on Corporate Governance for South Africa, 2009 (King III) recommends that the remuneration philosophy of the company be submitted to shareholders for consideration and for an advisory, non-binding vote to provide shareholders with an opportunity to indicate should they not be in support of the material provisions of the remuneration philosophy and policy of the company.

**Summary of the rights established in terms of section 58 of the Act as required by section 58(7)(b)**

For purposes of this summary, "shareholder" shall have the meaning ascribed thereto in the Act.

1. At any time, a shareholder of a company is entitled to appoint any individual, including an individual who is not a shareholder of that company, as a proxy, to participate in, speak and vote at a shareholders' meeting on behalf of the shareholder or give or withhold written consent on behalf of such shareholder in relation to a decision contemplated in section 60 of the Act.

2. A proxy appointment must be in writing, dated and signed by the relevant shareholder, and such proxy appointment remains valid for one year after the date upon which the proxy was signed or any longer or shorter period expressly set out in the appointment, unless it is revoked in a manner contemplated in section 58(4)(c) of the Act or expires earlier as contemplated in section 58(8)(d) of the Act.

3. Except to the extent that the Memorandum of Incorporation of a company provides otherwise:
   3.1 a shareholder of the relevant company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by such shareholder;
   3.2 a proxy may delegate his authority to act on behalf of a shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
   3.3 a copy of the instrument appointing a proxy must be delivered to the company or to any other person on behalf of the relevant company before the proxy exercises any rights of the shareholder at a shareholders' meeting.

4. Irrespective of the form of instrument used to appoint a proxy, the appointment of the proxy is suspended at any time and to the extent that the shareholder who appointed that proxy chooses to act directly and in person in the exercise of any rights as a shareholder of the relevant company.

5. Unless the proxy appointment expressly states otherwise, the appointment of a proxy is revocable. If the appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by cancelling it in writing or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and the company.

6. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date: (a) stated in the revocation instrument, if any or (b) upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Act.

7. If the instrument appointing a proxy or proxies has been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Act or the relevant company's Memorandum of Incorporation to be delivered by such company to the shareholder, must be delivered by such company to the shareholder or to the proxy or proxies, if the shareholder has directed the relevant company to do so in writing and paid any reasonable fee charged by the company for doing so.

8. A proxy is entitled to exercise or abstain from exercising any voting right of the relevant shareholder without direction, except to the extent that the Memorandum of Incorporation or the instrument appointing the proxy provides otherwise.

9. If a company issues an invitation to shareholders to appoint one or more persons named by such company as a proxy or supplies a form of instrument for appointing a proxy:
   9.1 such invitation must be sent to every shareholder who is entitled to notice of the meeting at which the proxy is intended to be exercised;
   9.2 the invitation or form of instrument supplied by the relevant company must: (a) bear a reasonably prominent summary of the rights established in section 58 of the Act; (b) contain adequate blank space, immediately preceding the name or names of any person or persons named in it, to enable a shareholder to write in the name and, if so desired, an alternative name of a proxy chosen by such shareholder; and (c) provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour or against the applicable resolution/s to be put at the relevant meeting, or is to abstain from voting;
   9.3 the company must not require that the proxy appointment be made irrevocable; and
   9.4 the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in section 58(5) of the Act.

# Form of proxy

**Esorfranki Limited**
Incorporated in the Republic of South Africa
Registration number: 1994/000732/06
JSE code: ESR ISIN: ZAE000133369
("Esorfranki" or "the company")

Form of proxy for the annual general meeting of the company to be held on 28 June 2013 at the company's offices at 30 Activia Road, Activia Park, Germiston ("the annual general meeting"). Only for use by certificated shareholders, nominee companies of Central Securities Depository Participants ("CSDP"), brokers' nominee companies and shareholders who have dematerialised their shares and who have elected own-name registration and who wish to vote on the special and ordinary resolutions per the notice of the annual general meeting to which this form is attached.

Shareholders who have dematerialised their shares through a CSDP or broker must not complete this form of proxy and must provide their CSDP or broker with their voting instructions, except for shareholders who elected own-name registration in the sub-register through a CSDP, which shareholders must complete this form of proxy and lodge it with Computershare Investor Services (Proprietary) Limited.

Holders of dematerialised shares other than with own-name registration who wish to attend the annual general meeting, must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the necessary letter of representation.

I/We (name in BLOCK LETTERS)

(address)

Telephone/Cellphone

being the holders of ordinary shares in the company, do hereby appoint

1 or failing him/her,

2 or failing him/her,

3 the chairperson of the annual general meeting, as my/our proxy to act for me/us and on my/our behalf at the annual general meeting of the company, or any adjournment hereof, which will be held for the purpose of considering and, if deemed fi t, of passing, with or without modification, the special and ordinary resolutions as detailed in the notice of annual general meeting, and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s, in accordance with the following instructions:

| Number of votes on a poll (one vote per ordinary share) | In favour | Against | Abstain |
|---|---|---|---|
| **Special resolution number 1:**<br>Authority for the company repurchase its own shares | | | |
| **Special resolution number 2:**<br>Authorisation for the company to pay its directors' remuneration | | | |
| **Special resolution number 3:**<br>Authority to provide financial assistance to related and inter-related companies | | | |
| **Ordinary resolution number 1.1:**<br>Re-election of Mr B Krone as an executive director | | | |
| **Ordinary resolution number 1.2:**<br>Re-election of Mr D Thompson as an independent non-executive director | | | |
| **Ordinary resolution number 1.3:**<br>Election of Mr W van Zyl as an executive director | | | |
| **Ordinary resolution number 2:**<br>Re-appointment of KPMG Inc as external auditor | | | |
| **Ordinary resolution number 3.1:**<br>Re-election of Mr E Dube as a member of the Audit Committee | | | |
| **Ordinary resolution number 3.2:**<br>Re-election of Mr D Thompson as a member of the Audit Committee | | | |
| **Ordinary resolution number 3.3:**<br>Re-election of Dr F Sonn as a member of the Audit Committee | | | |
| **Ordinary resolution number 4:**<br>Authority to effect the resolutions | | | |
| **Ordinary resolution number 5:**<br>Authority to issue unissued shares | | | |
| **Ordinary resolution number 6:**<br>Authority to issue unissued shares for cash | | | |
| **Ordinary resolution number 7:**<br>Sanctioning of the remuneration philosophy | | | |

Signature signed at on 2013

Assisted by (if applicable)

**Please see notes on reverse.**

# Notes to the form of proxy

1. Each shareholder is entitled to appoint one or more proxies (none of whom need be a shareholder of the company) to attend, speak and vote in place of that shareholder at the annual general meeting.

2. Shareholder(s) that are certificated or own-name dematerialised shareholders may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space(s) provided, with or without deleting "the chairperson of the annual general meeting", but any such deletion must be initialled by the shareholder(s). The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow. If no proxy is named on a lodged form of proxy, the chairperson shall be deemed to be appointed as the proxy.

3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the shareholder in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy, in the case of any proxy other than the chairperson, to vote or abstain from voting as deemed fi t and in the case of the chairperson to vote in favour of the resolution.

4. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholders, but the total of the votes cast or abstained from may not exceed the total of the votes exercisable in respect of the shares held by the shareholder.

5. Forms of proxy must be lodged at or posted to Computershare Investor Services (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) to be received no later than 48 hours prior to the annual general meeting.

6. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so. Where there are joint holders of shares, the vote of the first joint holder who tenders a vote, as determined by the order in which the names stand in the register of members, will be accepted.

7. The chairperson of the annual general meeting may reject or accept any form of proxy which is completed and/or received, otherwise than in accordance with these notes, provided that, in respect of acceptances, the chairperson is satisfied as to the manner in which the shareholder concerned wishes to vote.

8. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company or Computershare Investor Services (Pty) Limited or waived by the chairperson of the annual general meeting.

www.esorfranki.co.za