esorfranki LIMITED

INTEGRATED REPORT 2012

R1,8 BILLION	6,2 CENTS PER SHARE	R1,772 BILLION	241,5 CENTS PER SHARE
REVENUE	HEPS	ORDER BOOK	NAV

SCOPE AND BOUNDARY OF REPORT

Esorfranki has progressed in preparing this integrated report. This integrated report 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 report takes cognisance of the recommendations of the King III Report which highlights the need to reflect the impact of economic, social and environmental issues on business performance. This integrated report does not purport to provide fully integrated reporting, but in the opinion of the board of directors does significantly advance the aim to achieve this in the future.

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 and CEO's report is provided, offering the reader a comprehensive, integrated, 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 provides an overview of both the South African and foreign operations of the group for the financial year ended 29 February 2012 and follows the previous report published. The Esorfranki group consists of Esorfranki and its subsidiaries. The annual financial statements have been prepared in accordance with IFRS, the requirements of the Companies Act, 71 of 2008, the Listings Requirements of the JSE and the King III Report.

The company has applied the majority of the principles contained in the King III Report, and those which have not been applied are explained where applicable in this integrated report, also stating for what part of the year any non-compliance has occurred. The company has also considered and applied many of the recommendations contained in the 'Discussion Paper on the Framework for Integrated Reporting and the Integrated Report' issued by the Integrated Reporting Committee of South Africa in January 2011.

Responsibility statement

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

Forward-looking statements

The integrated report contains forward-looking statements that, unless otherwise indicated, reflect the company's expectations as at 29 February 2012. 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.

Chairman of the Audit Committee

CEO

CFO

Integrated business

Esorfranki's commitment to an integrated and sustainable business approach is illustrated by its vision and mission as well as the deepening management resources in health, safety, environment, transformation and risk, aiding economic, social and environmental sustainability.

The 2012 integrated report is available in hard copy upon request from the registered office (see page IBC of this report) and is also posted on the group's website: www.esorfranki.co.za.

Key data

Esorfranki Limited
(Registration no.: 1994/000732/06)
ISIN: ZAE000133369
JSE Main Board sector: Construction and Building Materials

Share code:	ESR
Listing date:	14 March 2006
Shares in issue:	395 185 430
Divisions:	Esorfranki Geotechnical Esorfranki Civils Esorfranki Pipelines

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PERFORMANCE HIGHLIGHTS

Esorfranki is one of South Africa's benchmark civil engineering and construction groups, providing specialist geotechnical services, roads, earthworks, building and pipeline construction. The range of services therefore encompasses sub-surface foundation work and above-surface construction services with niche specialities.

Esorfranki operates through three core divisions:

- Esorfranki Geotechnical
- Esorfranki Civils
- Esorfranki Pipelines

The group's footprint extends throughout South Africa and into Africa namely, Angola, Botswana, DRC, Ghana, Kenya, Malawi, Mozambique, Namibia, Seychelles, Tanzania, Uganda, Zambia, Zimbabwe and the Indian Ocean islands.

Esorfranki has achieved the highest possible ratings from the CIDB – 9CE, 9GB, 9SJ and 9SC – empowering the group to tender for construction projects of unlimited size and value. The group has Level 4 B-BBEE provider status.

Operational

- Successful return to profitability in H2 FY2012
- Rights offer completed and acquisition-based debt settled
- Single amalgamated operating entity
- Order book strengthened
- Expansion into Ghana and Uganda
- ISO 9001 accreditation obtained in all divisions
- Esorfranki Civils plant expanded
- Esorfranki Civils capital acquisition programme successfully implemented
- Conclusion of loss-making contracts

Group		H1 FY 2012 R'000	H2 FY 2012 R'000	TOTAL FY 2012 R'000
Revenue		857 524	914 168	1 771 692
Gross profit		79 895	141 842	221 737
(Loss)/profit before interest and tax		(14 415)	67 561	53 146
Capex		152 342	105 380	257 722
Ratios:				
Revenue increase on previous comparable period	(%)	39,3	6,6	30,0
Gross margin	(%)	9,3	15,5	12,5
Operating margins	(%)	(1,7)	7,4	3,0


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FIVE-YEAR FINANCIAL REVIEW

Consolidated statements of income		2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Revenue		**1 771 692**	1 366 433	1 857 817	1 414 722	1 017 480
Cost of sales		**(1 549 955)**	(1 204 988)	(1 361 041)	(981 829)	(745 546)
Gross profit		**221 737**	161 445	496 776	432 893	271 934
Other operating income		**1 705**	3 654	3 937	1 631	1 651
Operating expenses		**(90 786)**	(116 033)	(111 661)	(108 601)	(90 087)
Profit before interest, depreciation and taxation		**132 656**	49 066	389 052	325 923	183 498
Depreciation, impairments and amortisations		**(79 510)**	(65 489)	(83 478)	(92 473)	(30 391)
Profit/(loss) before interest and taxation		**53 146**	(16 423)	305 574	233 450	153 107
Finance costs		**(73 233)**	(54 371)	(93 106)	(78 279)	(28 171)
Finance income		**49 726**	23 703	63 281	55 600	32 883
Profit/(loss) before taxation		**29 639**	(47 091)	275 749	210 771	157 819
Taxation		**(11 423)**	6 330	(78 108)	(67 389)	(41 817)
Profit/(loss) for the year		**18 216**	(40 761)	197 641	143 382	116 002
Headline earnings/(loss) reconciliation:						
Profit/(loss) for the year		**18 216**	(40 761)	197 641	143 382	116 002
Loss/(profit) on disposal of property and equipment		**5 830**	4 609	5 396	(39)	(714)
Gain on disposal of subsidiary		**–**	(3 654)	–	–	–
Impairment of assets		**–**	2 032	–	11 944	–
Headline earnings/(loss)		**24 046**	(37 774)	203 037	155 287	115 288
Earnings per share						
Basic earnings/(loss) per share	(cents)	**4,7**	(13,9)	69,4	56,9	51,7
Diluted earnings/(loss) per share	(cents)	**4,7**	(13,8)	68,6	54,1	50,7
Headline earnings/(loss) per share	(cents)	**6,2**	(12,9)	71,3	61,7	51,3
Dividend per share	(cents)	**–**	–	15,0	15,0	20,0

Consolidated statements of financial position		2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Assets						
Non-current assets		1 151 181	966 187	999 551	987 520	386 415
Property, plant and equipment		737 312	565 775	596 429	588 545	262 741
Intangible assets		88 226	90 117	93 737	113 022	94 529
Goodwill		305 715	305 715	305 715	280 173	26 468
Financial assets held at fair value through profit or loss		1 291	–	–	–	–
Deferred tax assets		18 637	4 580	3 670	5 780	2 677
Current assets		665 288	498 164	648 273	875 972	398 524
Inventories		20 622	16 983	14 827	11 379	7 224
Non-current asset held-for-sale		3 293	–	–	–	–
Other investments		–	420	6 762	14 269	–
Taxation		15 617	3 855	9 952	4 699	3 527
Trade and other receivables		529 103	413 768	499 869	572 800	271 914
Cash and cash equivalents		96 653	63 138	116 863	272 825	115 859
Total assets		1 816 469	1 464 351	1 647 824	1 863 492	784 939
Equity and liabilities						
Share capital and reserves		937 432	703 156	808 028	619 577	389 664
Share capital and premium		592 045	389 449	396 956	339 078	213 587
Equity compensation reserve		16 188	14 444	8 253	3 917	2 361
Foreign currency translation reserve		(21 395)	(33 188)	(14 296)	14 651	6 683
Accumulated profits		350 594	332 451	417 115	261 931	167 033
Non-current liabilities		316 658	195 562	405 711	470 080	133 791
Secured borrowings		179 911	84 516	275 031	370 603	85 169
Post-retirement benefits		1 806	1 657	1 665	1 587	8 106
Deferred tax liabilities		134 941	109 389	129 015	97 890	40 516
Current liabilities		562 379	565 633	434 085	773 835	261 464
Current position of secured borrowings		105 923	241 527	121 677	147 664	21 304
Taxation		15 872	9 953	6 644	84 358	26 781
Bank overdraft		3 047	–	–	–	–
Provisions		16 350	3 213	21 087	31 118	15 559
Trade and other payables		421 187	310 940	284 677	510 695	197 840
Total equity and liabilities		1 816 469	1 464 351	1 647 824	1 863 492	784 939
Number of ordinary shares in issue	('000)	395 185	302 162	302 162	289 496	247 904
Weighted average number of ordinary shares	('000)	386 731	293 763	284 743	251 780	224 560
Diluted weighted average number of shares	('000)	386 731	293 763	294 555	288 038	254 380
Net asset value per share	(cents)	241,5	238,9	275,6	223,2	160,3
Net tangible asset per share	(cents)	168,5	142,1	177,5	121,2	121,4

GROUP OVERVIEW

Vision and values

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

Esorfranki is built on a single vision which, as one, the group will realise through daily application of its core values:

- Commitment
- Integrity
- Unity
- Accountability

Investment case

- Comprehensive geotechnical fleet, innovative design, world-class product offering and expert soil investigation services
- Diversified civil engineering product offering
- Specialist in steel-welded pipeline construction
- Geographic diversity
- Experienced and diversified management

Business model

How we create value and make decisions

Esorfranki Geotechnical

- Market and brand leader
- Design alternatives constantly investigated
- Geographical diversity entrenched and expanded
- Depth of management know-how
- Well-established business processes for over 65 years
- Plant capacity and capability – retooled and modernised equipment
- Impeccable safety record
- Workshop facilities

Esorfranki Civils

- Diversified range of construction services including roads, buildings, housing and mine infrastructure
- Plant capacity and capability expanded
- Strong relationships with mines, consulting engineers and clients
- Experienced and talented management team
- Impeccable safety record

Esorfranki Pipelines

- Niche leader in welded steel pipelines
- Experienced and talented management team
- Impeccable safety record

Products and services

Esorfranki Geotechnical	Esorfranki Civils	Esorfranki Pipelines
Piling	Road building	Gas and petrochemical steel pipelines
Lateral support	Bridge and culvert construction	Water and wastewater pipelines
Marine structures	Township infrastructure	Sewer pipelines
Diaphragm walls	Mining infrastructure	Pipeline refurbishments
Ground improvement	Water reticulation	Cement mortar lining
Dynamic compaction	Water towers and reservoirs	Valve chambers
Ground remediation	Sewer reticulation	Associated concrete structures
Underpinning	Bulk earthworks and pipejacking	Associated infrastructure
Geotechnical design	Building, housing and developments	Testing and pigging of completed pipeline sections
Auger boring Bridge jacking Culvert jacking	Waste water treatment plants and oxidation ponds	Pump stations

GROUP OVERVIEW (CONTINUED)

Strategy

Short-term

Challenge	2012 progress	Strategic focus 2013
Severe slowdown in public sector infrastructure spend (large scale projects)	• Management interventions to improve profitability and synergy of divisions by focusing on cost structures, tender submissions and contract execution • Expansion into Ghana and Uganda (Esorfranki Geotechnical) • Private sector clients targeted and market share grown through efficient project execution, high safety standards and timeous delivery • Articles published in major industry journals to enhance brand awareness	• Continued focus on driving efficiencies • Diversification in product offering and growth in market share • Achieve Level 3 B-BBEE rating • Strengthening commercial and project execution capabilities • Obtaining ISO 18001 and ISO 14001 accreditation • Continued advertising and brand awareness campaigns
Price competitive environment and increasingly difficult contract terms and conditions	• Improved project execution capabilities • Review of contract portfolio: restored to profitability by improving cost reporting standards and standardising policies and procedures across all divisions • Civil plant capacity expansion (enhancing efficiency and resource optimisation) • Focus on brand awareness • Group operations integrated into a single entity to harness cost effectiveness and standardisation • Group driven by common values, business philosophies and practices • Rationalisation of duplicate costs and resources to enhance shared values and cohesiveness	• Continued identification of ways to augment profitability and enhance synergies; increase product and service offering to maintain market dominance; and secure diversity in order book • Establish office in Ghana • Esorfranki Civils/Pipelines will focus on new markets in neighbouring countries • Restructuring of Esorfranki Plant as a division of Esorfranki Construction
B-BBEE focus	Maintained Level 4 B-BBEE certification	Improve B-BBEE rating to Level 3
Organisational development	Succession and development plans implemented	Continued focus on development and succession plans

Strategy

Short-term

Challenge	2012 progress	Strategic focus 2013
Delayed payment cycles from government and main contractors	• Securing significant advance payments on foreign contracts • Strict working capital management and reporting • Realisation of duplicate assets, including business properties • Secured short-term working capital facilities to accommodate growth and delayed payment cycles • Undertook rights issue and settled acquisition-based debt levels • Capital asset expansion programmes secured on the back of long-term contracts, boosting price competitiveness and efficiency and plant resource expansion	• Strict working capital management and reporting • Advance payments on foreign contract awards • Market growth into Africa • Securing adequate working capital finances

Medium- to long-term

Strategy	Focus areas	Medium/long-term
Expand product offering and market share growth Geographical diversity in Esorfranki Civils and Esorfranki Pipelines Improve B-BBEE scorecard to Level 2 ISO 14001 and ISO 18001 accreditation	• Securing long-term contracts to create future visibility and to underpin sustainability • Focus on sustainable growth nodes within government infrastructure programmes • Supply chain management will take cognisance of environmental impact and carbon emissions will be measured and managed • Addressing Construction Charter requirements to improve BEE scoring by 31 December 2013 through: – Improving ownership by appointing black women to the board – Enterprise development – Skills development and employment equity	Medium
	• Focus on concession and development projects • Expand into neighbouring African countries • Focus on private sector clients to balance dependency on government contracts	Long-term

GROUP OVERVIEW (CONTINUED)

Performance review

Below are Esorfranki's key performance areas across the entire group. Execution is managed by key executive-level staff.

Key performance areas	Drivers	Measures
Strategic operational management	Group vision and mission	• Annual strategic planning and target setting • Mid-term strategic review with the executive committee • To be the benchmark South African construction group committed to the fulfilment of all stakeholders
	Shareholder expectations	Return on investment: • Share price • Dividend growth
	Employee expectations	• Preferred employer
	Short-term objectives	Preparation, integration, consolidation: • Brand name recognition • Operations • Culture • Centralised support functions
	Medium-term objectives	• Growth and diversity
	Long-term objectives	• Market share growth • Preferred service provider • Across the board improvements • Profitability and margin growth
Group profitability and operations	**Group strategic objectives:** • Shareholder/stakeholder expectations	**Group financial budgets** • Group profitability • Gross profit • Profit after tax • Working capital management • HEPS & EPS growth • Return on investment • Return on equity
	• Group strategic objectives	Effective coordination of resources and capacity between divisions to minimise costs and optimise profits
Corporate governance	**Legal requirements** Corporate practice requirements	**All applicable legislation** • King III Report • Competition Commission • Code of Ethics

Key performance areas	Drivers	Measures
Risk management	Group risk tolerance levels	• Turnover • PBIT • Cash flow generation • Work on hand in each division • Debtor days outstanding and accounts receivable • Contract profitability: profit-making contracts as a percentage of turnover • BEE status • Safety and incidence reporting
Human resources	Legal compliance	Standardised HR policies, procedures, and conditions of employment
	Group strategic objectives	• Remuneration policy • Industrial relations • Manpower and succession planning • Retention strategy • Employment equity • Training and development
Plant	Group strategic objectives	• Replacement and upgrading of plant equipment • Plant repayments
SHEQ	Legal compliance	Safety
	Group strategic objectives	• Health • Environment • Quality
Group marketing and business development	Group strategic objectives	• Enhance existing relationships • Develop new relationships • Promotion of group image • Investor relations • Develop effective networks with relevant industry and committee role players • Acquisition of new business

GROUP AT A GLANCE

Milestones

1946-1998

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
1994- Esor (Pty) Limited established following restructuring of geotechnical operations and property companies
1995- Patula group established
1998- Management buy-out at Franki

2002

- Shearwater group established

2005

- Esor lists on AltX
- Esor acquires Franki

1946 · 1951 · 1956 · 1961 · 1966 · 1971 · 1976 · 1981 · 1986 · 1991 · 1996 · 2001 · 2006 · 2011

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'

2009

- Esor transfers to JSE Main Board
- Esor renamed Esorfranki Limited
- Esorfranki group revenue jumps to R1,4 billion
- Esorfranki Limited rebranded

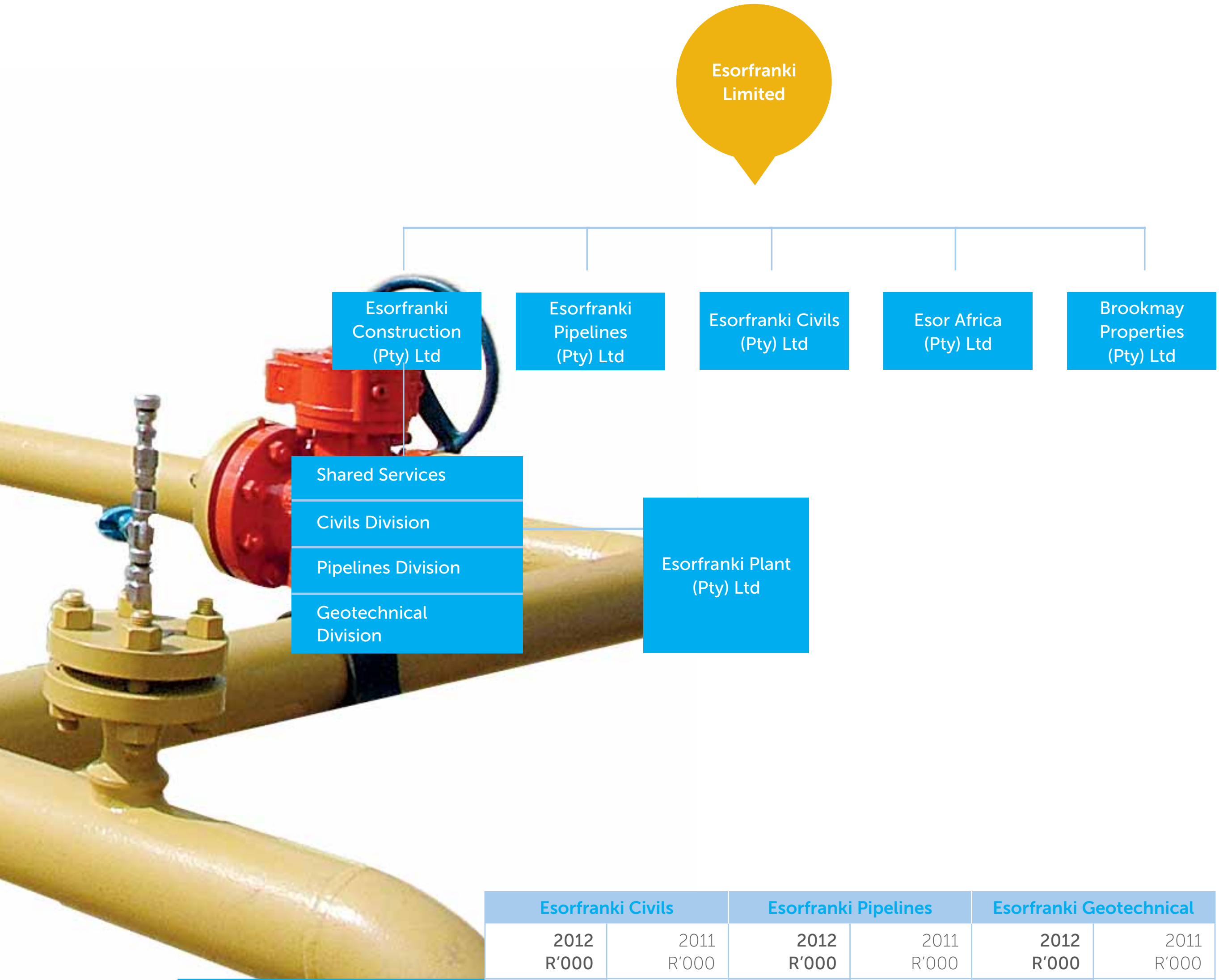
2010

- Esorfranki achieves R1,9 billion turnover

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

Operational structure



	Esorfranki Civils		Esorfranki Pipelines		Esorfranki Geotechnical	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Revenue	824 051	518 787	227 821	169 005	734 092	706 672
Profit/(loss) before interest and tax	25 376	(3 113)	2 234	(3 548)	50 253	18 747
Segment assets	583 537	454 761	84 007	87 092	722 746	662 228
No. of employees	1 820	1 453	373	434	1 191	1 287
Revenue growth	59%	(27%)	35%	(26%)	4%	(25%)
Operating margins	3%	(1%)	1%	(2%)	7%	3%
Order book	1 215 762	860 267	220 073	264 083	321 205	332 454
Pending awards	1 613 000	511 500	260 867	631 000	150 500	263 009
Prospects	3 788 500	2 482 000	3 115 000	5 000 000	468 210	454 700
Non-government revenue	23%	30%	–	–	67%	60%
Government revenue	77%	70%	100%	100%	33%	40%

OPERATIONAL REVIEW

ESORFRANKI GEOTECHNICAL

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

Esorfranki Geotechnical offers a "one-stop geotechnical shop" and is the largest and most established specialist Geotechnical contractor in the southern African region. Through Esorfranki Geotechnical the group offers a full 'design and construct' service, including piling, dynamic compaction, soil improvement, micro piling, lateral support and pipejacking.

Esorfranki Geotechnical's revenue increased by 4%, driven mainly by growth in sub-Saharan Africa, with record revenues in Mozambique and Mauritius. Revenue from foreign operations grew 34% to R273,4 million while revenue in South Africa was down 8%. Operating margins improved substantially in H2 to 10%. Foreign operations achieved an operating margin of 14% contributing 68% of the division's operating profits. The South African market has remained competitive which resulted in reduced gross margin contributions.

Growth in the construction sector in Mozambique is underpinned by increased demand for natural resources and the corresponding infrastructure required in accessing these resources. During the year Esorfranki Geotechnical made its first foray into Ghana concluding its first contract valued at R12,9 million. At year-end the company had successively secured an additional R120 million contracts in Ghana for basement lateral support and marine structures. Revenue declined in Angola due to government's backlog in construction debt.

The Competition Commission investigation into alleged anti-competitive behaviour is currently inactive after having the matter referred to a tribunal following a failed settlement offer to the Commissioner. The board has raised an estimated provision in the financial statements for the likely penalty.

The division spent R51,1 million on CAPEX which included a new R17 million BG 28 oscillator piling rig and R7 million on 2 Casagrande piling rigs. The division further acquired land and developed workshops and offices in Mauritius for an investment of R4,5 million. The board has approved R47,3 million maintenance CAPEX budget for 2013 FY. This is not contracted for as at 29 February 2012.

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

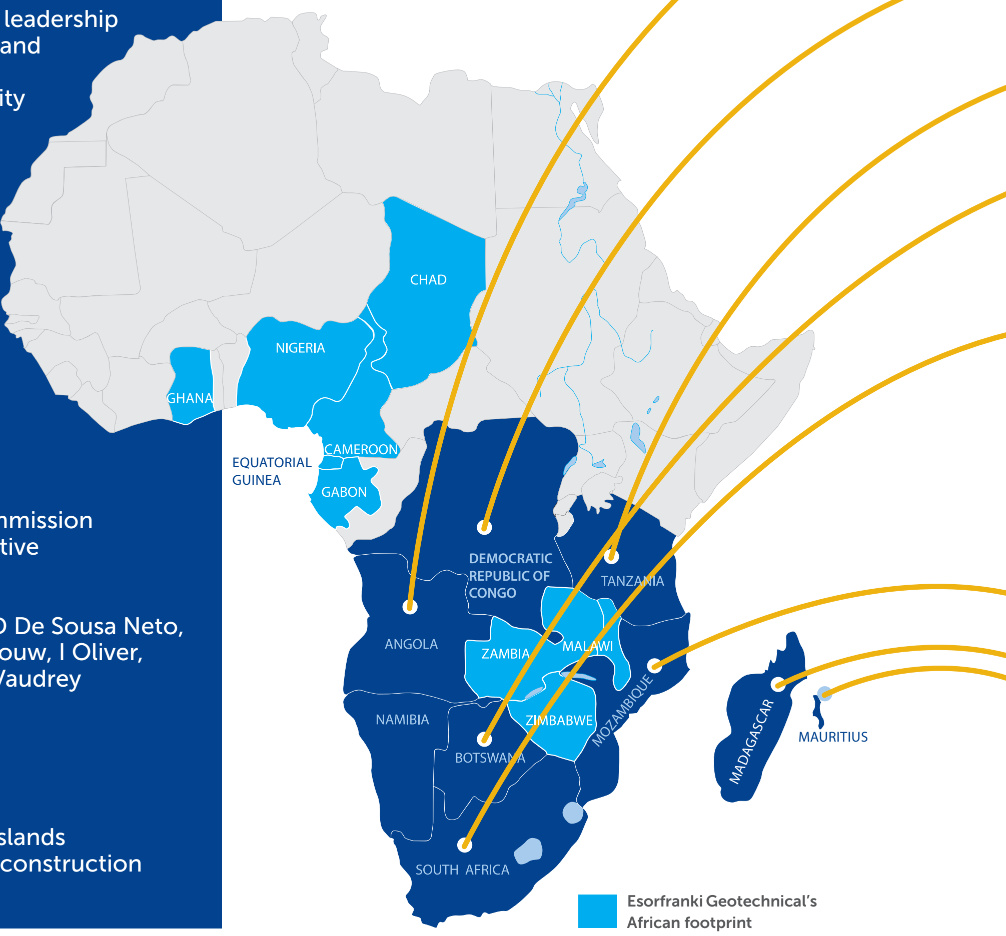
Achievements
- Revenue maintained above R700 million
- KwaZulu-Natal operation integrated
- New market entry into Ghana and Uganda
- Purchase of a BG 28 rig, creating advanced oscillating pile capability

Operational challenges
- Unresolved Competition Commission investigation – currently inactive

Divisional management
R McLintock, G Boyd, G Byrne, D De Sousa Neto, A Field, R Goss, M Hofmann, R Louw, I Oliver, R Schultz, I Stephen, M Taitz, A Vaudrey

Employees
1 191

Markets
- Africa and the Indian Ocean islands
- Mining, civil engineering and construction industries



Financial performance

	2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Revenue	734 092	706 672	944 862	1 190 192	1 017 480
Operating margin	7%	3%	17%	14%	15%
Segment assets	722 746	662 228	754 541	944 471	784 939

Operational review

	2012			2011		
Half year comparisons	H 1 R'000	H2 R'000	Total R'000	H 1 R'000	H2 R'000	Total R'000
Revenue	405 611	328 481	734 092	423 180	283 492	706 672
Operating income/(loss)	18 591	31 662	50 253	24 820	(6 073)	18 747
Operating margins	5%	10%	7%	6%	(2%)	3%
Number of employees	1 095	1 091	–	1 408	1 287	–
Revenue growth%	43%	(19%)	4%	1%	(33%)	(25%)
Work on hand at period end	244 017	321 205	–	254 089	332 454	–

Geographic presence

Angola, Kinaxixi MXD complex
Phase I – 1 150 soil nails, 4 200m² of gunite, 310 micropiles and over 370 soldier piles. Phase II comprised the installation of up to five rows of Titan anchors, 7 500m² of gunite arches and approximately 90 jet grout columns.
Duration: 15 months

DRC, Kolwezi soil improvement project
Large soil improvement project for a new copper mine processing plant.
Duration 6 months

Tanzania, PSPF
Lateral support and piling to new offices for the Public Services Pension Fund in Dar-es-Salaam.
Duration: 6 months

Botswana, Jwaneng mine cut 8
A piling contract consisting of 710 straight-shafted, cast-situ auger piles ranging between 600mm – 900mm in diameter and inserted to depths ranging from 16m – 25m. Esorfranki also completed the dynamic compaction on the primary stockpile over an area of more than 2 000m².
Duration: 10 months

South Africa

Argyle storm water outfall (KZN)
Design and construction of a temporary jetty and coffer dam with a 5m high protection wall for the construction of the extended concrete shotgun outfall.
Duration: 12 months

V&A Waterfront development (Cape Town)
Piling and lateral support to the majority of the V&A Waterfront Development.

Bridge jacking to N17 contract (Gauteng)
Jacking of a 26m wide, 32m long and 15m deep bridge that weighed 4 500 tonnes underneath a fully functional railway line a technique used to ensure minimal environmental impact.
Duration: 9 months

Mozambique, Beira Stacker and Quay Upgrade
Deep piling to 28 metres for new coal export facility.
Duration: 10 months

Madagascar
Various soil investigations.

Mauritius, Dry dock in Port Louis
Construction of a diaphragm wall and piling to the floor slab of the dry dock.
Duration: 12 months

Future developments

- Solar green energy prospects including transmission and cellular tower foundations
- Growth driven by the government's infrastructure programme
- Sustainable growth in Africa on the back of resource demands
- Focused attention on amicable resolution of Competition Commission investigation
- ISO 14001 (environment) and ISO 18001 (health and safety) accreditation sought

Esorfranki Geotechnical

CASE STUDY

BUILDING ON ITS AFRICAN FOUNDATIONS

During the year Esorfranki reached a milestone securing its first contract in Ghana. This represents further strides in its strategy of pursuing sustainable growth opportunities across the African continent with a particular focus on mineral resources, marine and general infrastructure.

The Ghanaian contract, valued at R13 million, encompassed the installation of piling to a mill foundation. The four month project commenced in 2011. The group will further capitalise on its established presence in Ghana, and had submitted tenders for other projects in the country.

Esorfranki also secured a piling and quay upgrade project valued at R70 million for a coal stacker at Mozambique's port of Beira, which will be exporting coal from the Moatzie fields.

In Angola, the group is currently working on a contract to provide lateral support and foundation piling to the Kinaxixi MXD Complex in Luanda.

Riding on infrastructure demand
Esorfranki Geotechnical successfully completed a project for Transnet Capital Projects in 2011 which required the design and construction of a contiguous piled wall to address slippage at a railway cutting in KwaZulu-Natal. Esorfranki Geotechnical was awarded the contract in February 2011 after offering the most technically appropriate solution.

OPERATIONAL REVIEW (CONTINUED)

ESORFRANKI CIVILS

Richard Maynard – *Managing Director*
Dip QS Wits Tech
28 years' experience

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

Esorfranki Civil's revenue including the pipejacking business, which was transferred from the Esor Africa Johannesburg operation following the rationalisation of the geotechnical business unit increased 59%. The pipejacking operation contributed 10% to revenue, while road construction accounted for 51% and earthworks and structures 22%. The building market construction division, which was established during the year, contributed 4% while mine infrastructure construction came in at 13%.

The division returned to profitability in the contract portfolio in the first quarter of the year following losses and margin reversals on the R21 contract and contract completion costs on the N4 phase 1 road contract. These contracts have now been completed and the division has adopted stringent risk management processes and disciplines in its contract tendering and project execution policies and procedures.

Operating margins improved substantially to 10% in H2 driven by operational efficiency on secured long-term contracts awarded by Bakwena Corridor Concessionaire, Gauteng Roads Department, Eskom and Anglo Coal. Exceptional plant utilisation was achieved following the expansion programme concluded in the current financial year.

Despite very competitive market conditions within the government market sector, the division increased its order book by 41%. The division has successfully increased its market share and order book with private clients having also secured a R271 million construction contract, as at 29 February 2012, for infrastructure and top structure construction for a mixed use integrated township development for the mining industry.

The division spent R205,3 million on acquisitive capital assets to enhance its service delivery, efficiency and capacity following the award of significant long term contracts. The board has approved R115,7 million capex budget for its 2013 FY to enhance operational capacity and efficiencies on the back of long-term secured contracts. This is not contracted for as at 29 February 2012.

Financial performance

	2012 R'000	2011 R'000	2010 R'000	2009 (post acquisition – 4 months) R'000
Revenue	824 051	518 787	715 033	148 993
Operating margin	3%	(0.6%)	20%	41%
Segment assets	583 537	454 761	442 162	382 169

Half year comparisons	2012 H 1 R'000	2012 H2 R'000	2012 Total R'000	2011 H 1 R'000	2011 H2 R'000	2011 Total R'000
Revenue	354 366	469 685	824 051	225 301	293 486	518 787
Operating income/(loss)	(22 096)	47 472	25 376	24 097	(27 210)	(3 113)
Operating margins	(6%)	10%	3%	11%	(9%)	(1%)
Number of employees	1 544	1 820	–	1 176	1 453	–
Revenue growth	21%	33%	59%	(34%)	30%	(27%)
Work on hand at period end	983 954	1 215 762	–	501 801	860 267	–

OPERATIONAL REVIEW (CONTINUED)

Key distinguishing features/developments

- Versatile and diversified civil engineering capability
- Talented and experienced management
- Successful entry into the building, housing and property development markets
- Expanded market share
- Successful implementation of plant CAPEX programme

Achievements

- Entry into building and affordable housing market
- Pipejacking division exceeded budget
- Restoration of profitable contract portfolio
- Expansion of plant resources on the back of large secured contracts
- Market growth in mining infrastructure sector
- Implementation of risk management processes in contract portfolio execution
- Substantial growth in order book
- ISO 9001 accreditation
- Diversified and appropriately balanced contract portfolio

Operational challenges

- Significant dependency on government contracts
- Price competitive environment
- Protracted contract award in Mozambique
- Unprotected work stoppages

Divisional management

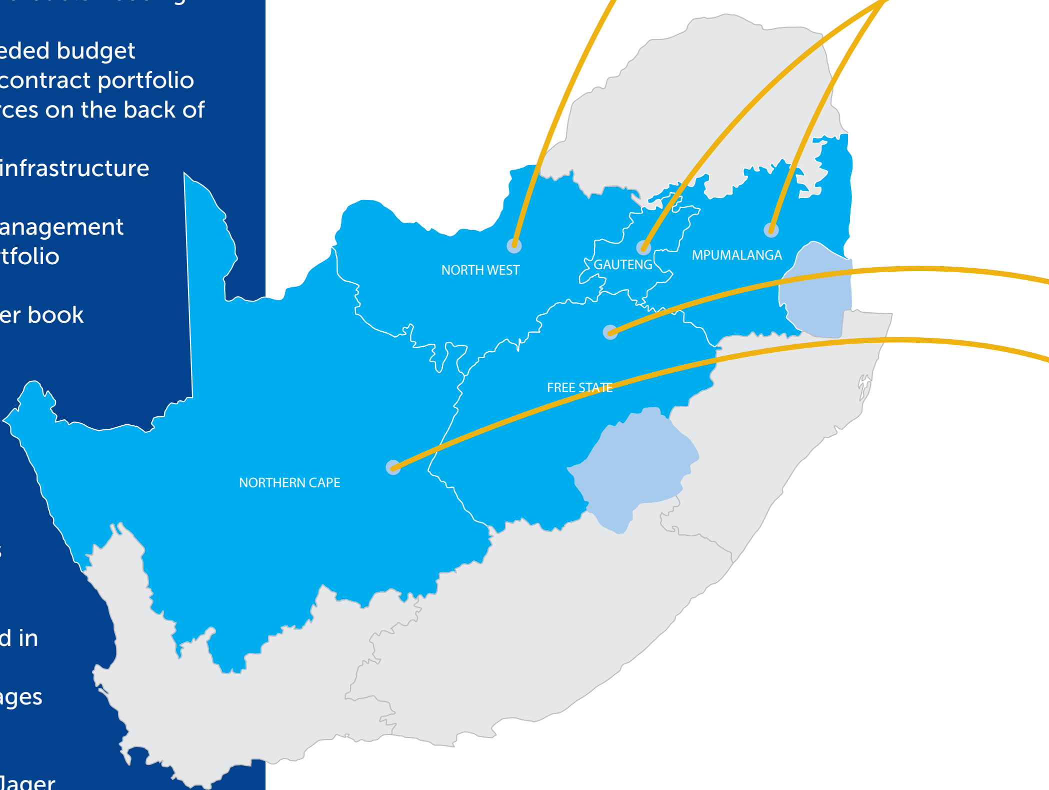
R Maynard, E Burman, A de Jager, P Dittberner, M Green, M Grobler, P Hodgman, M Mathabathe, M Rippon, E Stockter, A Hansen, S Robertson, K Duncan, A Naude

Employees

1 820

Markets

- Civil engineering and construction sectors
- Government, major mining houses and the private sector



Geographic presence

North West, Bakwena N4 Toll Road
Construction of a second 11,2km carriageway along a section of the N4.
Duration: 18 months

Mpumalanga, Atcom Bridges
Construction of haul road-over-river bridges (120m x 30m) for Xstrata Coal on the Atcom East project.
Duration: 18 months

Gauteng, Sanral R21
Upgrade of 12,8km of the R21 national route from the East Rand Mall to Pomona Road.
Duration: approximately 28 months

K71/R55
Phase 1 of the 6,5km R55 from the N14 to the Wierda Road (Kl03) intersection including two road-over-river bridges.
Duration: 24 months.

Final phase comprising 4,2km construction of a dual carriageway from the Kl03 intersection to Laudium and an additional two road-over-river bridges, currently underway .

Free State, Wesselsbron
Construction of a 4,5 mega-litre waste water purification plant in Wesselsbron.
Duration: 18 months

Northern Cape, Kathu
Construction of a 20 mega-litre water reservoir and water tower.
Duration: 18 months

Future developments

- Market entry into the integrated mix-use housing developments – both private and government contracts
- Focused attention on the mining infrastructure sector
- Continue investment in plant resources on the back of long-term secured contracts
- ISO 14001 and ISO 18001 accreditation sought
- Growth driven by government's announced infrastructure programme

Esorfranki Civils

CASE STUDY

ESTABLISHING KUSILE'S UNDERGROUND NETWORK

Esorfranki Civils is currently working on a R311 million contract to build the complex subterranean service infrastructure at Kusile Power Station. The group is responsible for installing a series of sub-surface and allied services, which forms an essential component of the power station's design. The project includes the installation of 2 700m of cast in situ concrete box culvert tunnels that will accommodate the electrical and communications cabling as well as kilometres of service piping, plus the laying of an extensive network of concrete and PVC pipelines for transporting water, sewage and waste water.

OPERATIONAL REVIEW (CONTINUED)

ESORFRANKI PIPELINES

Dave Gibbons - *Managing Director*
Dip Mining Survey
24 years' experience

Esorfranki Pipelines focuses on the construction and rehabilitation of onshore pipelines and operates mainly in the gas and petrochemical, water, stormwater and sewerage sectors. The business unit provides pipelines in a range of materials including steel, glass fibre reinforced polyester, concrete, PVC, ductile iron, HDPE and fibre cement, and has specialist experience in laying and welding steel pipelines. Esorfranki Pipelines also offers pipeline refurbishment including mechanical linings and coatings. A fully equipped workshop and yard is on site at the business unit's office to support fleet maintenance.

Esorfranki Pipelines' revenue was up 35% despite a turbulent financial year which included the cancellation of the Western Aqueduct joint venture contract, which had already seen protracted delays since its award in June 2011. Revenue was further impacted by contractual disputes on Esorfranki Pipeline's flagship BG 3 contract. This was resolved in Esorfranki's favour on mediation and has now been referred to arbitration by the client. This is expected to be finalised in 2013 FY and these revenue claims have not been recognised in the financial results for the year under review.

Operating margins sustained a break even financial performance.

Pleasingly, despite the very competitive market conditions within the government and municipal markets, the division was awarded a number of new contracts in the last quarter of the financial year.

The division utilised R0,6 million on capital assets and a R29,9 million CAPEX budget for 2013 FY has been approved by the board. This will be used to modernise Esorfranki Pipeline's resources and to enhance operational efficiencies on long-term secured contracts. This is not included in the year to 29 February 2012.

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

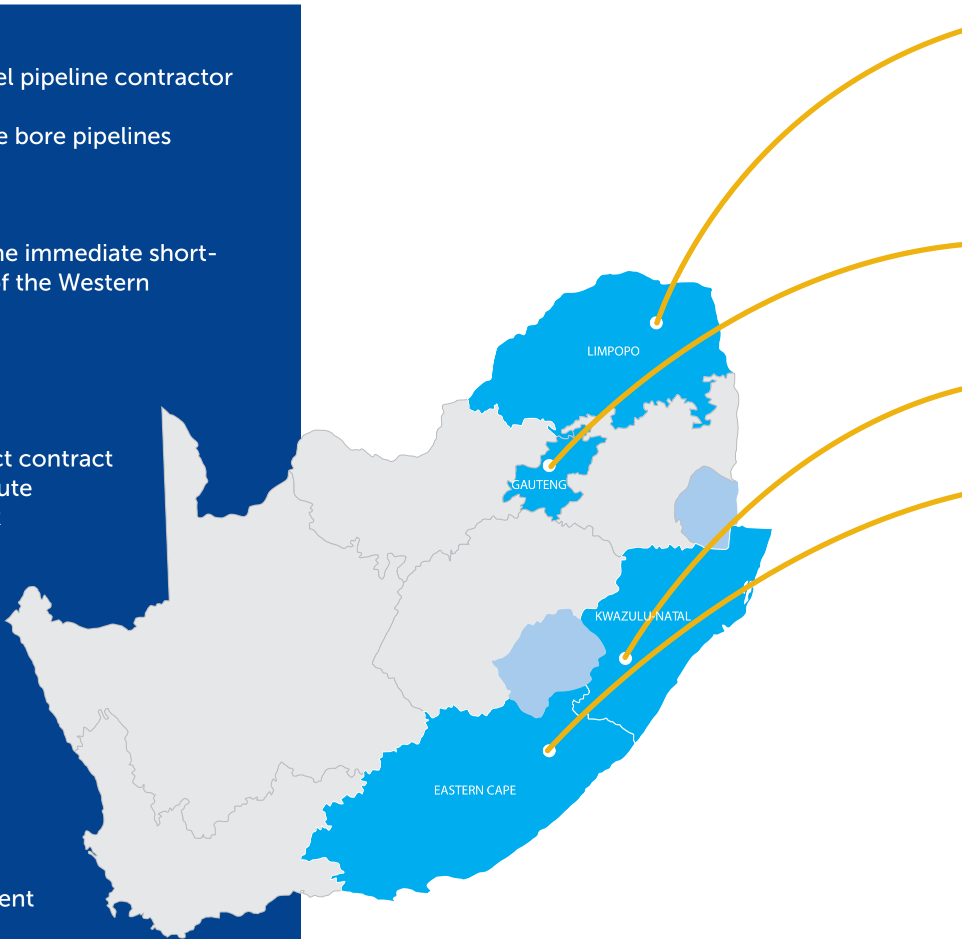
Achievements
- ISO 9001 accreditation
- Secured substitute contracts in the immediate short-term following the cancellation of the Western Aqueduct contract

Operational challenges
- Protracted awards experienced
- Intensified competition
- Cancellation of Western Aqueduct contract
- Unresolved BG3 contractual dispute
- Securing longer-term order book
- Unprotected work stoppages

Divisional management
D Gibbons, M Grobler, P Kilian, A Rheeder, R Torry

Employees
373

Markets
- Public and private sector clients
- Top mining and industrial groups
- Regional and municipal government



Financial performance

	2012 R'000	2011 R'000	2010 R'000	2009 (post acquisition – 4 months) R'000
Revenue	227 821	169 005	229 231	85 361
Operating margin	1%	(2%)	14%	38%
Segment assets	84 007	87 092	167 121	197 011

	2012			2011		
Half year comparisons	H 1 R'000	H2 R'000	Total R'000	H1 R'000	H2 R'000	Total R'000
Revenue	113 320	114 501	227 821	102 297	66 708	169 005
Operating income/(loss)	313	1 921	2 234	423	(3 971)	(3 548)
Operating margins	0%	2%	1%	0%	(6%)	(2%)
Number of employees	475	373	–	467	434	–
Revenue growth%	70%	1%	35%	4%	(35%)	(26%)
Work on hand at period end	567 618	220 073	–	240 488	264 083	–

Geographic presence

Limpopo
Mooihoek Bulk Water Supply Phase II
Installation of 13km of a 660mm diameter steel pipeline.
Duration: 8 months

Nebo Plateau Bulk Water Pipeline
Installation of 32km of a 450mm diameter steel pipeline from Nebo to Jane Furse.
Duration: 24 months

Gauteng, BG3
Delivering water from the Vaal Dam, a distance of 8,6km, in a 3 500mm diameter steel pipe to the canal feeding Zuikerbos Pump Station.
Duration: 24 months

KwaZulu-Natal, Nsezi Bulk Water Pipeline
Installation of 4,5km of a 1 300mm diameter raw water steel pipeline.
Duration: 8 months

Eastern Cape
Mbizana Pipeline
Installation of 13km of a 500mm diameter steel pipeline from the Ludeke dam site to the Nomlaqu treatment works.
Duration: 12 months

Milton Siphon
Replacement of approximately 1,1km of a 1 900mm diameter concrete siphon with new steel pipework.
Duration: 6 months

Future developments

- Focus on opportunities in neighbouring countries
- ISO 14001 and ISO 18001 accreditation sought
- Investment in plant capacity on the back of long-term secured contracts
- Growth driven by the government's announced infrastructure programme

Esorfranki Pipelines

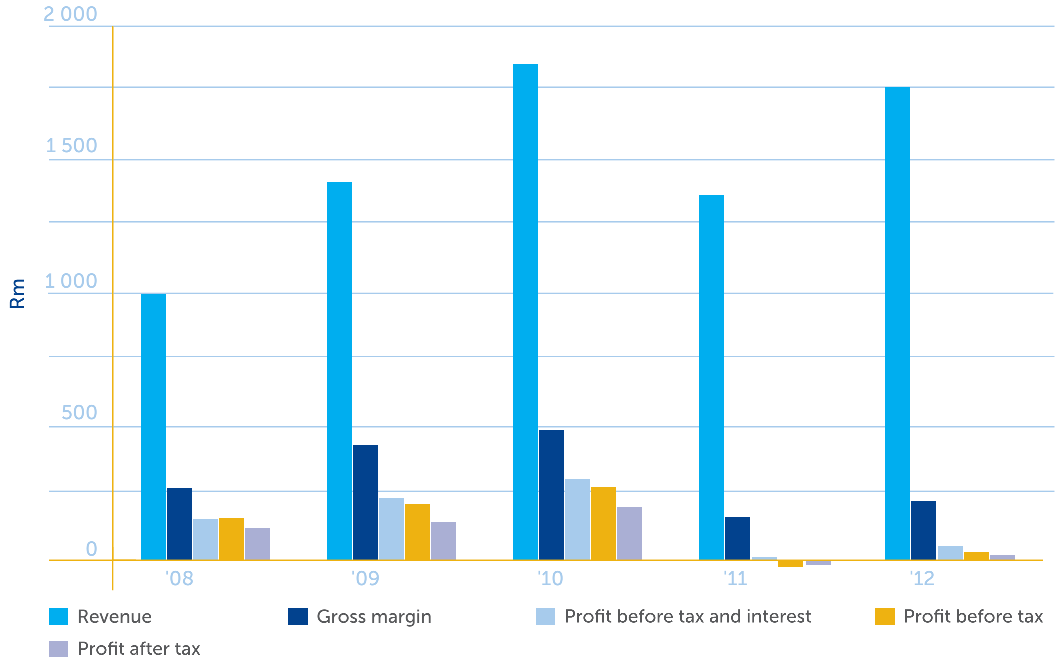
CASE STUDY

BG3 PIPELINE PROJECT

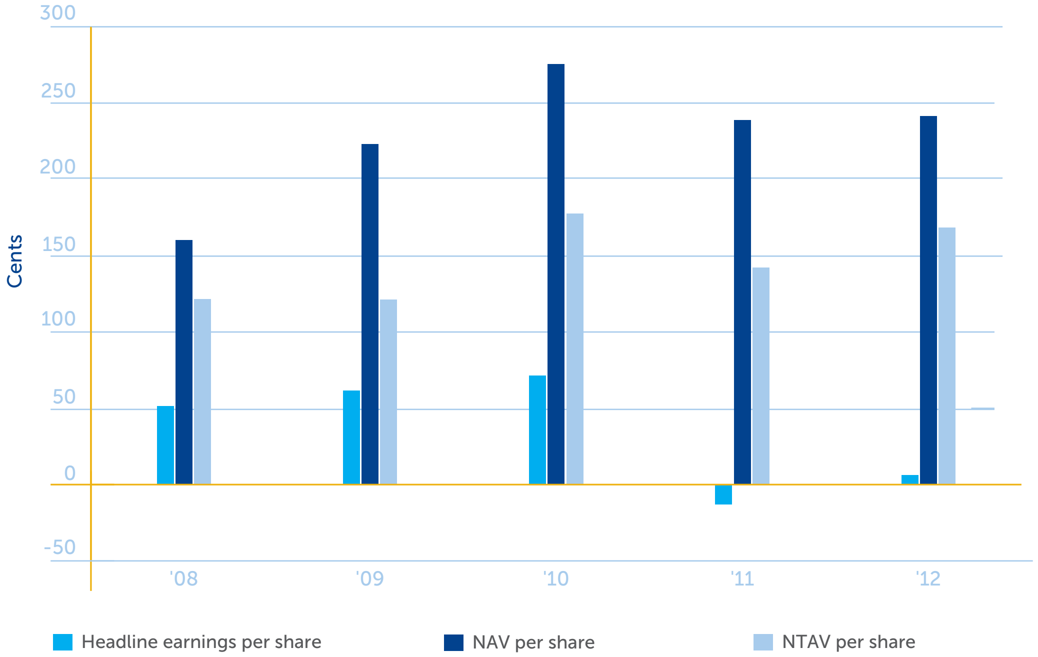
Esorfranki Pipelines' flagship R200 million BG3 pipeline project is expected to reach completion in the 2013 financial year. The new BG3 pipeline will duplicate the adjacent BG1 and BG2 pipelines that carry water from the Vaal Dam to the Zuikerbosch pumping station, critical to the supply of water to the Gauteng region. Once the BG3 pipeline has been commissioned, the two older pipelines could be shut down for refurbishment. Esorfranki is responsible for reinstating the land after the project as well as maintaining the pipeline for a 12-month period after commissioning.

OPERATIONAL REVIEW (CONTINUED)

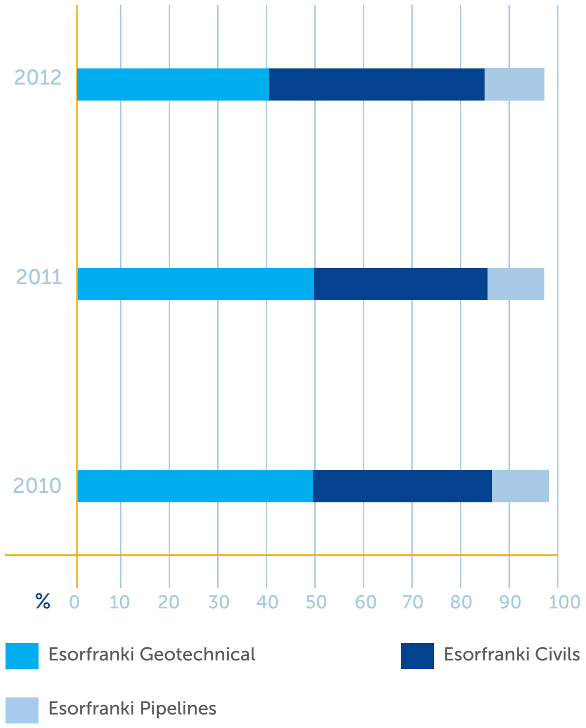
Comparison of revenue and margins



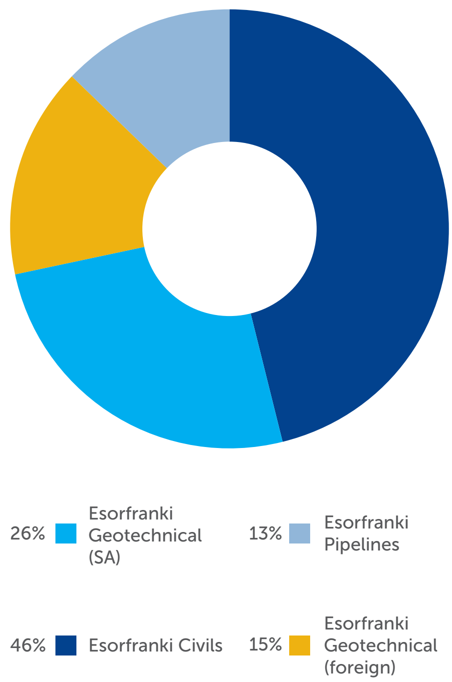
Performance indicators



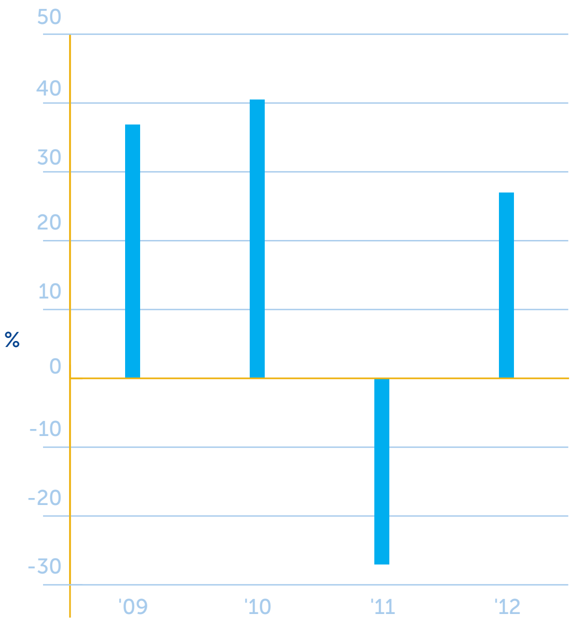
Revenue by division



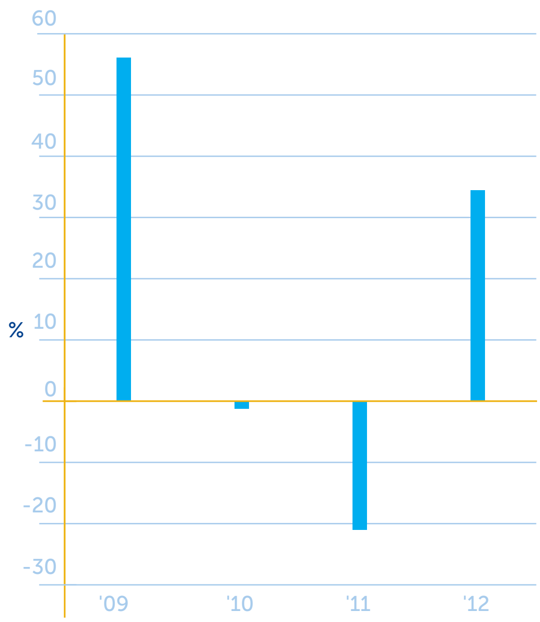
Revenue by division



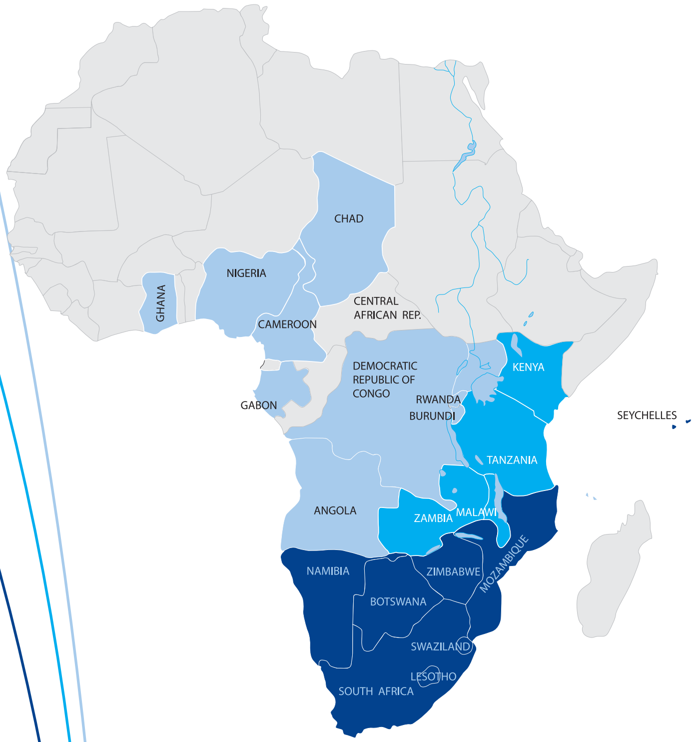
Revenue growth year-on-year – South Africa



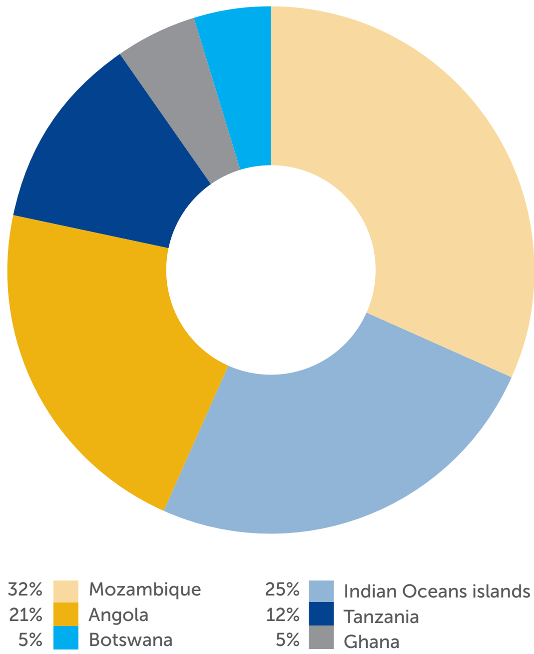
Revenue growth year-on-year – Foreign



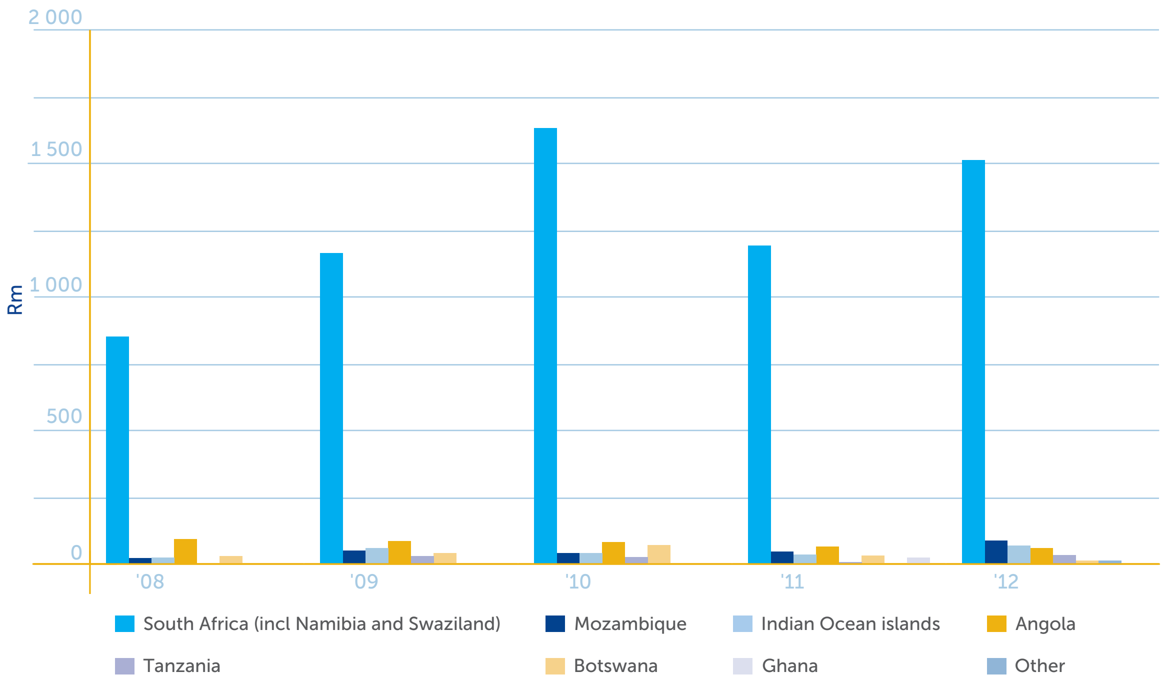
OPERATIONAL FOOTPRINT



Esorfranki Geotechinical foreign revenue by country



Revenue by country



LEADERSHIP DIRECTORATE

EXECUTIVE DIRECTORS

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, 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.

Wayne van Houten
Born: 1965
CFO

BCom, BAcc, CA(SA)

Wayne qualified as a chartered accountant in 1990 after serving articles with KPMG. He left the auditing profession shortly thereafter and has since been involved in the construction industry. He joined Franki Africa (Pty) Limited in early 2005 and has been an executive director since November 2006. Wayne was appointed as group CFO in June 2008.

Andy Brookstein
Born: 1951

Andy worked for WBHO for 17 years gaining civils and mining contracting experience, and also sat on the WBHO main board of directors. In 1995 he formed Patula Construction with Richard Maynard and was managing director until handing over the role to Richard in May 2009. In August 2011 he was appointed to the Esorfranki board as an executive director.

LEADERSHIP DIRECTORATE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dave Thompson
Born: 1936
Chairman

CA(SA)

Dave qualified as a chartered accountant in SA 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 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

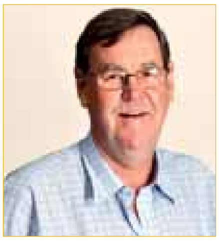
Briss has extensive experience in all aspects of the initiation, structuring, implementation and operation of capital investment projects. He is well-known to government, parastatals, development agencies, export bodies, contractors and financiers and is currently managing director of Imbani Coal (Pty)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

Dr Franklin Sonn
Born: 1939

BA (Hons), STD FIAC

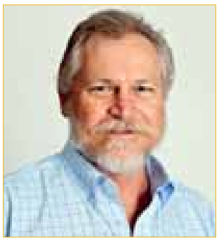
Democratic South Africa's first ambassador to the United States, Franklin is the recipient of 13 honorary doctorates and has held many distinguished positions. He currently serves as a non-executive director on the boards of a number of blue chip companies. Franklin is also chairman of African Star Ventures (Pty) Limited, the Airports Company of SA Limited, Cape Star Investments (Pty) Limited, Ekapa Mining (Pty) Limited, Imalivest (Pty) Limited and Kwezi V3 Engineers (Pty) Limited. Has been the chancellor of the University of the Free State since 2002.

EXECUTIVE MANAGEMENT



Roy McLintock (58)
Esorfranki Geotechnical
BSc Eng (Civil) Natal, PrEng, MSAICE

Roy has worked in both the consulting and contracting realms of the industry for the last 34 years. The majority 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 and 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 the newly merged Geotechnical Division of Esorfranki Construction since March 2002.



Arthur Field (60)
Esorfranki Geotechnical
NDT (ES) (TN)

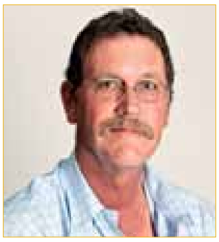
Arthur obtained a National Diploma for Engineering Surveying and worked for premier marine and civil engineering company Christiani & Nielsen before joining Esorfranki in 1981. He has gained extensive experience in all aspects of geotechnical engineering in his 31 years' service with the company and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

Richard Maynard (47)
Esorfranki Civils
Dip QS Wits Tech

Richard joined Grinaker as a quantity surveyor in 1984. He further gained experience in contracting with WBHO. In 1997 he formed Patula Construction with Andy Brookstein, where he worked as Contracts Director. He was appointed Managing Director of Esorfranki Civils in May 2010.

Dave Gibbons (45)
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 (52)
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 Group Human Resources Manager until he was promoted to Human Resources Director during 2009. William is currently the Human Resources Director of Esorfranki Construction.

ETHICAL LEADERSHIP

The board strives to ensure that the company conducts its business with the utmost integrity in all dealings with its stakeholders, including shareholders, potential investors, capital industry associations, employees, clients, suppliers, community, government and civil society. Demonstrating its commitment to responsible corporate citizenship, the board has constituted a Social and Ethics Committee which will be accountable to the board, effective April 2012.

In line with the Companies Act, the committee will monitor Esorfranki's compliance with relevant social, ethical and legal requirements and best practice codes. The committee will further report to shareholders on matters that fall within the scope of its mandate. The establishment of the committee is intended to bring clearer focus to Esorfranki's responsibility towards the communities in which it operates, on social transformation in the workplace, and on the protection of the safety, health and dignity of employees.

Code of Ethics and Conduct ("the Code")

The Code commits all employees to the highest standards of business conduct. The group's core values (unity, integrity, commitment and accountability) are embodied in the Code, which is reviewed annually and was updated during the year to stress the importance of adhering to the Competition Act.

In summary, the Code provides for the company, including its 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 it relates to customers, government and political activities, employment practices, transformation, occupational health, safety and environment, the community in which it operates, the board of directors and management and the personal conduct of employees.

The Code is communicated to employees across the group via newsletters and posters at the group's offices and sites. Roadshows were conducted at all remote sites during the year to reach all of the group's employees. There is an intention to implement an intranet in the year ahead which will include the Code and related information.

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.

In January 2012 the group, facilitated by KPMG, conducted a fraud awareness survey.

The survey showed that Esorfranki's employees' perception of the occurrence of fraud at the group is significantly below the industry national average in South Africa.

CHAIRMAN AND CEO'S REPORT

Bernie Krone,
CEO

Dave Thompson,
Chairman

"All I really need to know I learned in kindergarten!"

Recently we came across "All I really need to know I learned in kindergarten", a delightfully insightful passage by Robert Fulghum that resonated with us and formed a focal point in discussing and compiling this report. Not tongue in cheek, but rather hand on heart this funny, poignant credo struck us as an entirely sensible way to navigate the world. Extrapolating and applying it to the corporate environment syncs fundamentally with Esorfranki's core values. So using it to guide our report makes perfect sense.

"Be aware of wonder."

We've had a good year. Despite a still challenging economic environment, Esorfranki increased its order book to a respectable R1,8 billion at February 2012. All divisions returned to profitability and we successfully concluded a number of problematic contracts in the year. Foreign revenue was up 34%. The turnaround in our fortunes was further enhanced by the successful rationalisation and optimisation processes in all divisions, which cemented a healthier contract base and ensured that Esorfranki is well on the road to recovery. We feel confident that this puts to bed the last few trying years.

Esorfranki Geotechnical's revenue increased 4% driven by growth in sub-Saharan Africa, with record revenues in Mauritius and Mozambique, the latter fuelled by the demand for coal resources. Esorfranki also made its first foray into Ghana and Uganda securing large contracts in these new markets.

Esorfranki Civils increased its order book by 41% with profitable long-term contracts, despite competitive market conditions and saw revenue growth in the pipejacking business on the back of expanded plant, returning the division to profitability. The year also saw the successful implementation of a capital acquisition programme in the division.

Esorfranki Pipelines broke even despite a turbulent year due to the cancellation of the Western Aqueduct contract and unresolved protracted contractual disputes on the BG 3 contract (see page 20 for further information). We are confident of sustaining the improved performance with the division winning a number of new contracts in the last quarter of the financial year.

Rights offer

As discussed in last year's integrated report, a rights offer aimed at settling acquisition debt and strengthening the statement of financial position was announced in November 2010. The exercise concluded in March 2011. The offer successfully raised R200 million for the group, settling all acquisition-based debt.

B-BBEE

*"Share everything.
Play fair."*

B-BBEE remains a strong company commitment, with our focus going forward on broadening representation to ensure properly representative ownership. We have maintained a Level 4 B-BBEE status during the year despite the completion of the rights offer somewhat diluting our standing (discussed above). New targets have been established going forward and we have set our sights on improving our standing to Level 3 as well as aligning with new targets set by the Construction Charter.

Financial results

(They don't have these in kindergarten!)

See 'Operational Overview' on pages 14 to 25 and the CFO's Report on pages 36 to 37.

CAPEX

In line with foreign expansion plans **Esorfranki Geotechnical** acquired land and developed workshops and offices in Mauritius, investing R4,5 million. The division also spent R51,1 million on rebuilds and new equipment including a R17 million BG 28 oscillator piling rig. The board has approved a R47,3 million maintenance CAPEX budget for the year ahead.

Esorfranki Civils spent R205,3 million on acquiring capacity expanding capital assets during the year and the board has approved R115,7 million CAPEX for FY2013 in light of long-term secured contracts.

Esorfranki Pipelines spent R0,6 million on capital assets, with an approved R29,9 million CAPEX budget for FY2013 in place. This will be used for enhancing operational efficiencies and growth.

Strategy

"Wash your hands before you eat.

Take a nap every afternoon.

Remember the Dick and Jane books and the first word you learned – the biggest word of all - 'LOOK'".

We believe in rational, logical planning, using every opportunity for benefit including down cycles and tough times for consolidation, emerging 'older and wiser'.

At the moment we are excited about the future and have surfaced from our consolidation phase having spent time looking at further expansion into Africa, while also keeping a keen eye on the domestic market. Our focus going forward will remain expansion into new markets in sub-Saharan Africa, to strengthen and diversify revenue streams while taking advantage of the South African government's renewed commitment to infrastructure as per February's State of the Nation Address. It should offer Esorfranki significant opportunity, especially in terms of development and unlocking of South Africa's resource wealth through transport, energy and water logistics.

The next year to 18 months will see Esorfranki continue optimising efficiencies and prioritising diversification of products. For instance Esorfranki Geotechnical will work hard to realise opportunities in the solar green energy arena in respect of transmission and cellular tower foundation solutions.

Business environment

"Live a balanced life – learn some and think some and draw and paint and sing and dance and play and work every day some."

While a high degree of risk still clouds the global economy, domestic outlook remains positive: moderate growth is expected in South Africa – 2,7% growth in GDP for 2012 and 3,6% growth predicted for 2013. Investment spending is forecast to grow by 4,5% in 2013 and 6,0% in 2014, driven by Transnet's capital expenditure programme, one which is good news for the construction sector. Sub-Sahara Africa as a whole is expected to experience growth in excess of 5%.

Recent meaningful contract awards for Esorfranki are indicative of an economic upswing, bolstering the group's prospects. Further expansion into Africa (Ghana, Kenya, Uganda and Zambia) has offered us substantial growth opportunities, with new revenue streams secured in these foreign markets.

CASE STUDY

K71/R55 ROAD

NEW BRIDGE OVER HENNOPS RIVER, PART OF A NEW DOUBLE CARRIAGE WAY UNDER CONSTRUCTION IN PRETORIA WEST

The construction of a 100m long bridge over the Hennops River forms part of a 22-month contract awarded to Esorfranki Civils for the building of a 4,2 km dual carriageway from Wierda Road (K103) past the Zwartkops raceway to Laudium in Pretoria West.

Piling for the new bridge, being undertaken by Esorfranki Geotechnical, is already well advanced. A total of 168 piles are needed for the two decks and a total of 64 ton of steel reinforcing will be used in the construction of the bridge.

The new section links up with a 6,5km double carriageway from the N14 freeway to the K71 which was completed in July last year. The road building contract being undertaken for the Department of Roads was awarded in October with work starting in November last year. Completion is set for October 2012.

The bridge is being constructed in two phases. The 100 m southbound section will be completed first and opened for traffic. Thereafter, the existing old bridge will be demolished and the northbound section of the bridge constructed in its place. Demolition is scheduled for between January and February 2012.

CHAIRMAN AND CEO'S REPORT (CONTINUED)

Sustainability

*"Put things back where you found them.
Clean up your own mess.
Don't take things that aren't yours."*

The board views this, our second integrated report, as the group's formal communication with all stakeholders including investors, customers, suppliers, staff, government and the general community in which Esorfranki operates. Because these are the people to whom what we do matters, because it has real impact on them and because as a corporate consumer we do take – we need to give back to restore the status quo. We are also cognisant of the impact of our local actions on the bigger global playground.

We recognise that while wealth creation is critical to our stakeholders and to our longevity, an entire world exists beyond the financial classroom where social and environmental priorities are just as important to long-term survival.

We have endeavoured to comply as fully as possible with the principles of GRI and King III, and have explained where and why we have been unable to do so in the relevant instances.

If you look at our history, we have a strong track record of building a sustainable business. We take seriously our responsibility to adhere to sustainable business practices in all areas in which we operate. To this end in the year ahead we intend to revisit sustainability issues. (See 'Sustainability' on page 36 for further detail.)

Competition Commission

"Say you're sorry when you hurt somebody"

In July 2009 Esorfranki was named by the Competition Commission in an investigation into alleged anti-competitive behaviour in the piling and drilling industry. We have communicated all developments thus far to stakeholders.

The investigation is currently inactive, after having the matter referred to a tribunal following an unsuccessful offer of settlement.

Any developments in this regard will continue to be communicated on an ongoing basis. (see 'Directors' Report' on page 66 and 'Corporate Governance' on page 44).

Prospects

"Remember the little seed in the styrofoam cup: The roots go down and the plant goes up and nobody really knows how or why, but we are all like that."

We're forging on, a bit more weathered, a lot more experienced but still undaunted. Esorfranki has secured a number of significant contracts across all divisions despite tough market conditions. These are both local and African projects, some of which are highlighted below.

Esorfranki Geotechnical's first contract in Ghana worth R13 million has been completed and formed the foundation for the award of a further three contracts in the country for lateral support and marine structures worth R120 million. **Esorfranki Civils** has scooped long-term contracts from Bakwena Corridor Concessionaire, Gauteng Roads Department, Eskom and Anglo Coal, amongst others. **Esorfranki Pipelines** was awarded a number of new contracts in the last quarter of the financial year particularly in the KwaZulu-Natal region, the most notable of which is near Umlaas Road for Umgeni Water worth R130 million.

South Africa is still desperately in need of infrastructure development in power, water, transport and resources, which means that increased spending is on the cards especially given government's reiterated commitment (as discussed above). Esorfranki is well-positioned to take advantage of new projects as and when they come to the market.

Appreciation

"Say thank you."

We extend our heartfelt thanks to the entire management team and staff, as well as directors. Without your commitment during the recessionary times, Esorfranki would not be in the upbeat place we've now reached.

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

"When you go out into the world, watch out for traffic, hold hands and stick together."

Dave Thompson

Bernie Krone

24 May 2012

CFO's REPORT

Wayne van Houten
CFO

Introduction

This financial year has been a year of great significance as the group has returned to profitability following two turbulent years of falling revenues and returns. It involved implementing a number of significant and difficult decisions that have sustained the group through a period of humility and consolidation.

The group has successfully:

- Restored the profitability of its contract portfolio and the conclusion of its loss-making contracts
- Reduced duplicated costs
- Rationalised and divisionalised operating legal entities
- Retained core skill and motivation following recent contract awards
- Implemented strict risk management processes in contract tendering, execution and reporting in a competitive construction environment.

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

Consolidated statement of comprehensive income

The group's consolidated revenue increased by 30% to R1 772 million on improved activity levels across all operations. The group recorded a headline profit per share of 6,22 cents (2011: 12,9 headline loss per share).

Gross profit margins improved to 12,5% (2011: 11,7%) while overheads decreased to R90,8 million (5,1% of revenue) from R116 million (8,5% of revenue), driven by efficiency resulting from the rationalisation and higher activity levels. The net finance cost of R23,5 million was incurred as a result of our capital expenditure programme.

The effective tax rate was 38,5% (2011: 13,4%), which is largely attributable to prior year under provision, non-deductible expenditure and other permanent differences.

The profit after tax amounted to R18,2 million (2011: R40,7 million loss).

Consolidated statement of financial position

Intangible assets and goodwill

The directors have tested the recoverability of the intangibles as at 29 February 2012 based on the group's projections and estimates as further disclosed in note 5 and 6 to the annual financial statements.

The directors are satisfied that no impairments are necessary.

Property, plant and equipment

Capital expenditure of R257,7 million (2011: R50,3 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 R199 million for the 2013 financial year (2011: R278 million).

Trade and other receivables

The impairment provision increased by R14,7 million to R49,7 million (2011: R34,9 million). This provision relates to receivables in Esorfranki Geotechnical. Provision has been raised on all contractual disputes.

The days outstanding in the trade and other receivables improved marginally to 109,3 days (2011: 110,5 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 Mozambique and Mauritius. The South African credit risk exposure is around municipal, provincial and quasi government entities as detailed further in note 33 to the annual financial statements.

The investment in trade and other receivables totalled R111,5 million of operating cash flow in the current year.

Cash and cash equivalents

The group improved its operating cash by R66,1 million to R124,2 million (2011: R58 million). It further invested R256 million in investing activities, mainly by additions to property, plant and equipment. The cash flows from financing activities amounted to R162,3 million raised primarily from the proceeds from the rights issue of R200 million and net of settled secured borrowings of R402 million.

The group secured short-term overdraft facilities in South Africa to support the growth in operational activity levels during the current financial year. This facility will reduce and eventually be cancelled by May 2012.

Share capital and premium

The share capital and premium increased by R200 million following the issue of shares in terms of the rights offer to shareholders.

The foreign currency translation reserve improved by R11,8 million in the translation of foreign operations into the South African reporting currency.

The common control reserve of R261,1 million was transferred to retained earnings in the company following the divisionalisation of the Esor Africa business into Esorfranki Geotechnical and Civils. This business was sold at its carrying value and consequently an impairment provision was raised against the fair value initially recognised in the financial year 2009.

Non-current liabilities

Secured long-term borrowings increased by R95,4 million to fund the capital expenditure programme, which also increased the deferred tax liability mainly as a result of capital allowances claimable.

Current liabilities

The current portion of secured borrowings significantly decreased by R135,6 million as a result of settling acquisition-related debt of R177,6 million on 18 March 2011. The asset-based finance increased by a net R42,0 million during the year.

Trade and other payables include R85,2 million (2011: R90 million) due to customers. The cost of sales days outstanding in trade payables and others increased by 8,6 days to 102,6 days (2011: 94 days).

The trade and other payables increased operating cash flow by R110,2 million in the current year.

Financial covenants

There are no imposed facility covenants on the group as at 29 February 2012.

Dividend

The board has resolved that no dividend be declared.

The year ahead

The group will secure funding for the financial year 2013 capital asset programme through a listed high yield bond issuance and asset-based financing facilities. It is the intent of the board, subject to shareholder approval, to increase the BEE ownership by a further 10% to maintain competitiveness in the local market without further leveraging the group's financial position.

Wayne van Houten

24 May 2012

APPROACH TO SUSTAINABILITY

Achievements 2012

- Grown order book and improved profitability
- Entry into Ghanaian market ensuring geographical diversity in Esorfranki Geotechnical
- Resolved numerous insurance claims (impacted cash flow on certain projects)
- Consolidated and integrated KwaZulu-Natal geotechnical operation
- Implemented standardised policies and procedures and employee practices
- Focused on project risk management and cost reporting to avoid/reduce margin erosion in highly competitive environment
- Increased civils market presence in resources sector
- Enhanced civils plant capacity
- Retained key staff
- Secured sufficient and appropriate working capital facilities
- Implemented quality assurance programmes in Esorfranki Civils and Esorfranki Pipelines through ISO 9001 quality systems
- Maintained ISO 9001 rating in Esorfranki Geotechnical
- Improved growth contribution from sub-Saharan African geotechnical operations

Materiality

Esorfranki considers material issues to be those that impact either directly or indirectly on the economic, social and environmental sustainability of the group and the value it brings to stakeholders. In defining material issues, Esorfranki has taken the following into account:

- The group's strategy, vision and mission
- Key macro-economic issues affecting the industry, including regulatory and legal matters
- Principal issues raised by stakeholder groups
- The most significant business risks as identified through the group's risk management process and monitored by the board

Responsibility

The material issues defined and set out below are dealt with throughout this integrated report.

	Material issues	Description
Economic	Growth	Delivery of sustainable value to stakeholders
	Liquidity	Ensuring sufficient liquidity and capital to meet business objectives
	Project execution	Efficient risk controlled delivery of quality projects
Social	People	Empowerment and upskilling of employees
	Safety	Safety as a priority
Environmental	Impact of operations	Across the board commitment to environmental sustainability

Assurance

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

Business process assured	Output from assurance	Status	Assurance provider	Integrated report disclosure
Operational/risk/financial				
Value of construction works secured (to be executed as at 29 February 2012)	Construction secured order book confirmation	Assured	KPMG	Pages 13, 15, 17 and 21
Extent of construction contract profitability	Contract profit/loss ratio	Assured	KPMG	Page 43
Fair presentation in all material aspects – financial position and performance of the group and company	External audit report	Assured	KPMG	Page 67
Internal audit	Quality review	Assured	KPMG	Page 44
Quality				
Quality assurance	ISO 9001	Assured	SABS	Page 02
Empowerment				
BEE	BEE Scorecard	Assured	Ardent Business Partners	Page 08
Health and safety				
Legal compliance audit	Internal audit	Assured	Legricon	Page 45

STAKEHOLDERS

Value added statement

	2012 Rm	%	2011 Rm	%
Revenue	1 771 692		1 366 433	
Income from investments	–		–	
Cost of materials and services	(1 178 808)		(838 129)	
Total value added	592 884		528 304	
Value distribution	592 884		528 304	
To employees				
Remuneration and benefits	456 174	76,9	435 596	82,5
To providers of finance				
Net finance costs	20 302	3,4	32 348	6,1
Net forex (gain)/loss	3 205	0,5	(1 680)	(0,3)
To providers of capital				
Dividends to Esorfranki shareholders	–	–	43 642	8,3
To governments				
Current taxation	(7 831)	(1,3)	109	–
Secondary taxation on companies	–	–	3 910	0.7
Foreign taxation	9 879	1,6	6 224	1,2
To reinvest in business				
Retained income	18 216	3,1	(40 761)	(7,7)
Depreciation and amortisation	79 510	13,4	65 489	12,4
Deferred taxation	13 429	2,3	(16 573)	(3,1)

	2012	2011
Number of employees	3 402	3 184
Revenue per employee (R'000)	521	429
Value created per employee (R'000)	174	166
Corporate social investment	985	964

Stakeholder engagement

The importance of developing and nurturing positive and stable relationships with our key stakeholders is recognised as a key driver of business success. The value we place on our stakeholders is articulated in our mission statement "committed to meeting all our stakeholders' aspirations".

We are cognisant that building mutually beneficial long-term relationships with stakeholders is fundamental to creating sustainable value. The viewpoints of stakeholder groups are therefore integrated into all our decision-making processes.

The table below sets out our key stakeholder groups, nature of engagement, issues raised and the group's current status thereon.

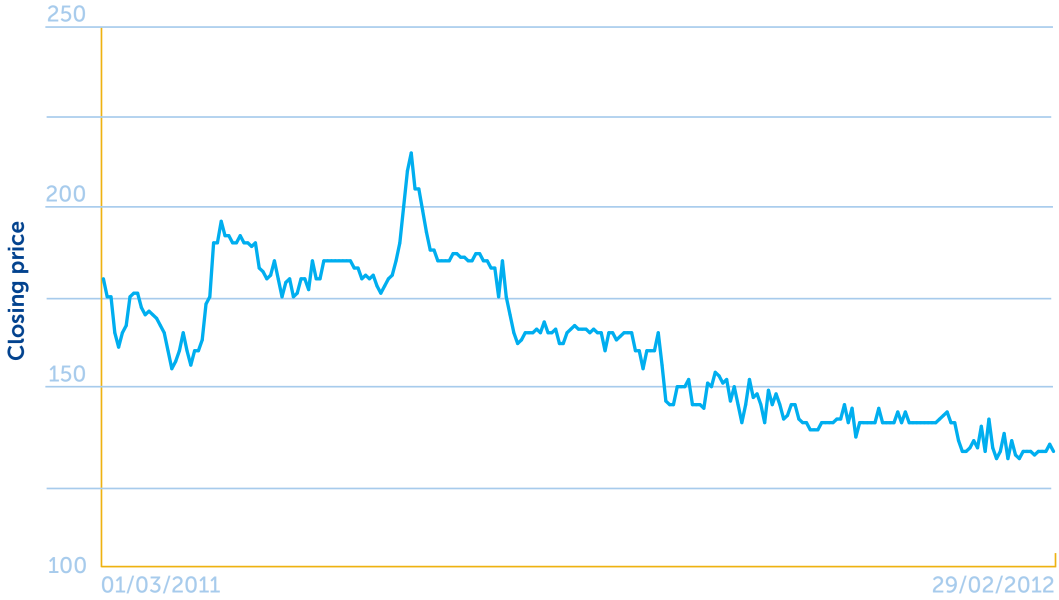
Stakeholder group	Nature of engagement	Issues raised	Current status
Employees	• Training sessions • News updates • Poster campaigns • Toolbox talks at all sites • Handbooks • Performance reviews • Payslips • Employment contracts	• Job security • Job advancement • Change-management • Safety awareness, health and wellness	• Stronger investment in training and talent management • Integrated brand identification across business units • Ongoing safety programme • Stronger health focus
Clients	Relationships maintained with key long-term clients through: • Service contracts • Meetings • Letters and email updates • Events	• Project execution • Market conditions	• Brand awareness and advertising • Knowledge database system being implemented in the geotechnical business units
Investors	• Annual and interim reports • Results presentations • SENS announcements • General meetings • Site visits • Roadshows • Teleconferences • JSE showcases	• Market performance • Sustainable growth • Reputational issues	Investor relations plans and programmes implemented and monitored
Trade unions	Regular meetings at the relevant levels in South Africa	• Conditions of employment • Engagement on health and wellness issues	Ongoing focus on labour and employee relations
Major contractors, suppliers and business partners	• Contracts and service agreements • Meetings • Workshops • Presentations • Training • Industry body meetings • Events	• Project execution • Costs • Market conditions	Measured and prioritised
Government, local authorities and regulatory bodies	• Formal and informal meetings • Consultations and workshops • Conferences and seminars • Tender submissions • Presentations • Audits	• Environmental legislation • Competition Commission • Skills development • Job creation • SARS tax investigation	• Group-wide adoption of ISO 14001 accreditation framework • Continual focus on artisan training and skills development • Enterprise development a priority • Continued co-operation with Competition Commission authorities • Employee awareness of Code of Ethics and Conduct • SARS audit field findings being addressed
Communities in which the group operates	• Ongoing CSI projects • Sponsorships • Donations	Sustainability of CSI investment	Ongoing focus on key CSI projects
Industry	• Representation on key industry bodies • Meetings • Correspondence • Newsletters • Sponsorship	B-BBEE challenges in the construction industry	Improve B-BBEE rating to maintain competitiveness

STAKEHOLDERS (CONTINUED)

The group belongs to the following industry and other associations:

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

Share performance



SHAREHOLDERS' DIARY

Financial year-end	February
Preliminary annual results announcement	28 May 2012
Integrated report posted	28 May 2012
Annual general meeting	13 July 2012
Interim results announcement	November 2012

RESPONSIBLE RISK MANAGEMENT

The group's Integrated Risk Management Strategy is pivotal to the business strategy and adheres to the King III Report. This strategy encompasses the following elements – risk identification, control, policies and procedures, and board requirements. As Esorfranki considers its people to be key contributors to risk mitigation, competent and adequate personnel are sought and appropriately trained. All new employees are fully informed of the responsibility framework in order to maintain risk control.

The Risk Committee, supported by the group risk officer, ensures that risk tolerance levels are set and management adheres to a formal risk responsibility framework. The group risk officer reports quarterly to both the Audit and Risk Committees. The Risk Committee further receives reports and obtains independent assurance on material sustainable issues.

The board is responsible for the group's systems of internal control and risk management, 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. Inherent limitations to the system's effectiveness exist due to the possibility of human error and the circumvention or overriding of controls. 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.

Internal audit, based on the field work undertaken during the year, provided reasonable assurance on the adequacy of the internal controls tested and the associated risk management process. A King III Risk Management Self-Assessment was facilitated by KPMG, looking at the following areas:

- Governance
- Assessment
- Quantification
- Monitoring and reporting
- Risk and control optimisations

Esorfranki achieved its internal target of 70% in terms of overall King III readiness and, according to KPMG, is in a leading position amongst its peers having demonstrated an advanced level of risk management.

The board has set the levels of risk tolerance and appetite in a risk tolerance report. These cover the following broad areas which form the basis for the risk matrix:

- Sustainability
  - Revenue/gross margin for the year
  - Cash flow balances
  - Secured revenue
  - Days outstanding in trade receivables
- Contract profitability
  - Profit/loss making contracts ratio
  - Contract penalties
  - Legal/contractual disputes
- Insurance claims
- BEE
- Safety

RESPONSIBLE RISK MANAGEMENT (CONTINUED)

The most significant risks faced by Esorfranki encompass standard industry risks as indicated in the risk matrix below:

Material risks	Mitigation
Dependency on government infrastructure spend	• Product diversification • Strategic B-BBEE rating • Market diversification • Geographical diversity
Working capital management	• Monthly cash flow forecast • Working capital facilities • Tougher on debt collection • KPAs of divisional managers
BEE	• Promotion from within • Careful management of transformation process
Material shortages/material delivery delays	• Proper planning • Qualifying bids • Site contracts and manuals • KPAs of divisional managers
Credit risk and cost reporting	• Monthly review at EXCO meeting • Monthly review of contract financials • KPAs of divisional managers
Bribery and corruption	• Obtain court interdicts • Exposure of corruption through whistle-blowing • Enforce Code of Ethics and Conduct
Competition	• Build on reputation through strong brand • Be competitive in terms of price and quality • Include alternative bids • In-house design
Underperforming contracts	• Immediate identification and response • Follow possible disciplinary action • Ensure accountability • Appoint the right people in the right jobs • Minimise non-conforming reports • Compliance reviews against policies and procedures

Internal audit

KPMG is appointed as an external service provider to the group's internal audit function. The internal audit function will continue to report directly to the Audit Committee and to meet 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 in achieving its goals and objectives 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; and
- Being responsive to Esorfranki's changing needs, striving for continuous improvement and monitoring integrity.

During the year under review the internal audit function:

- Reviewed risk management processes;
- Reviewed general ledger take on balances following the standardisation of the group's chart of accounts;
- Performed 2010 project follow-up reviews; and
- Reviewed the current control environment.

In addition KPMG facilitated an internet-based fraud awareness survey and fraud awareness workshops at two sites. Esorfranki was found to have perceptionally outperformed the industry average in South Africa.

An Internal Audit Plan has been developed which prioritises focus for the year ahead. This was developed taking into consideration preliminary discussions with Esorfranki management, Esorfranki's strategic risk profile, core business process, and Esorfranki's operating environment and state of control.

IT governance

Esorfranki recognises IT governance as an integral part of corporate governance and the responsibility of the board and executives. The group acknowledges that a well governed IT function is critical to addressing significant IT risks.

The IT Governance Charter was reviewed in August 2011. The charter formalises a framework of delegation from the board and Audit Committee down through executives to the CIO, and sets out policies, procedures, management committees and performance metrics which work together towards goals. 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
- Governance structure

The formulation of an IT governance policy has taken into account all stakeholders including the board, internal customers and specific departments, for instance, Finance. Further, the existing IT environment was assessed and the priority of the processes was defined based on risk control performance.

The group's approach to IT governance is outlined in an IT Governance Framework which incorporates various processes, structures, roles and responsibilities, lifecycles and policies. The framework incorporates these fundamental components to ensure a comprehensive practical framework that is customised to the environment, integrated into the key business objectives, managed across all stakeholders and monitored for compliance and performance.

Key aims of the IT Governance Framework are to standardise business processes across the group, reduce internal costs and ensure sound corporate governance. Achievements during the year included the roll-out of a standardised 'Buildsmart' accounting and procurement software platform – the software is now all contained on a centralised server at head office, and security measures have been implemented regarding access control and back-up and recovery plans.

The board received an annual update on IT risks in March 2012 in line with an annual review policy. All risks were deemed to be within defined tolerance levels and not considered material. Once all policies and processes outlined during the year have been fully implemented, Esorfranki will obtain independent assurance on the effectiveness of IT internal controls.

Legal compliance

The group risk officer, along with the executive management, is responsible for ensuring compliance with laws and regulations according to the group's legal compliance checklist. In addressing the requirements of the Companies Act, salient features of the proposed Memorandum of Incorporation are included on pages 136 to 138 for shareholder approval. The JSE has reviewed and approved this revised constitution in terms of the Listings Requirements.

Two areas of non-compliance have been identified in the group risk officer's report:

- Breach of JSE Listings Requirements in respect of directors' share dealings as discussed in the Corporate Governance Report on page 49; and
- Competition Commission investigation into collusion. This matter has been referred to a Tribunal which has not responded to date. The Competition Commission is alleging anti-competitive behaviour in the piling and drilling industry, involving transgressions by Franki Africa (Pty) Limited prior to that company's acquisition by the group, and by the then-named Esor (Pty) Limited prior to listing. Esorfranki has co-operated fully with the Competition Commission. The investigation is ongoing and no developments have occurred since the announcement at the previous year-end.

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

- Adoption and implementation of the Companies Act
- Improved compliance with the King III Report
- Continued roll-out of compliance awareness forums and training

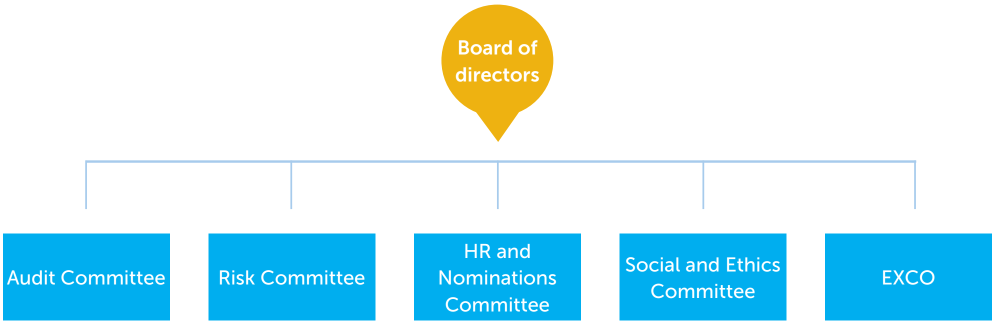
External audit

KPMG, the external auditors, report on whether the annual financial statements are fairly presented in compliance with IFRS and the South African 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.

CORPORATE GOVERNANCE

The board is committed to the highest levels of corporate governance as a key driver of sustainability. A healthy and ethical environment is promoted wherein every employee is expected to behave with integrity, honesty and fairness.



2012 Advancements

- Formation of a Social and Ethics Committee
- Board Charter and all committee terms of reference reviewed in line with King III and current legislation
- Implementation of standard group policies and procedures and employee practices across the group

Statement of compliance

The new Companies Act came into effect on 1 May 2011, and the board proposes the adoption of the Memorandum of Incorporation as is described in the salient features and the notice of annual general meeting. During the year under review, the board materially complied with King III recommendations as outlined in the Code of Corporate Practices and Conduct. The group has materially entrenched the majority of King III principles in its internal controls, policies, terms of reference and overall procedures, and will continue to do so. All areas of improvement that have been identified are being effectively dealt with. The following are explanations for areas where the group does not fully apply the principles of King III:

King III recommendation	Esorfranki's application
The evaluation of the board and its committees should be performed every year	Post year-end, the board and committees performed an evaluation and found it to be satisfactory.
Independence evaluations should be performed by the chairman or an independent provider.	Post year-end, the board performed an assessment of the independence of each non-executive director and found all to be independent.
Self evaluations should be performed by individual directors.	These will be conducted in the 2013 financial year.
The chairman should preferably not be a member of the Audit Committee.	The chairman has extensive experience in the construction industry and is a chartered accountant by qualification and thus a member of the committee.

The board

The board remains responsible and accountable for the performance and affairs of the group and has full control over all the subsidiaries of the group. Esorfranki's board is the focal point for good corporate citizenship, aware of the impact its operations may have on the environment and society in which it operates, while acting in accordance with its own Code of Ethics and Conduct. The directors exercise sound judgement and leadership with integrity based on principles of fairness, accountability and responsibility. Further, the board recognises its responsibility for safeguarding the sustainability of the business.

Esorfranki's unitary board is chaired by independent non-executive director David Thompson and comprises seven directors, three of whom are executive and four of whom are independent non-executive directors. During the year executive director Andrew Brookstein was appointed to the board, effective 26 August 2011.

The full board comprises:
Executive directors: B Krone (CEO), W van Houten (CFO), AC Brookstein
Independent non-executive directors: EG Dube, MB Mathabathe, Dr FA Sonn, DM Thompson (chairman)

In the year ahead Esorfranki expects to appoint a black female as a further independent director. The composition of the board is monitored by the Human Resources and Nominations Committee and is subject to the provisions of the Board Charter, which complies with King III. Accordingly, the board comprises a balance of power with a majority of independent non-executive directors.

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 and prevent any one director from exercising unfettered powers of decision-making. 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 Executive Committee ("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. These directors are not involved in the daily operations of the company.

Esorfranki's definition of independent is in line with King III recommendations. Non-executive directors are non-permanent employees of the group.

At any time, all independent non-executive directors have unrestricted access to management as well as to the group's external auditors. 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.

CORPORATE GOVERNANCE (CONTINUED)

In terms of the Memorandum of Incorporation, one-third of the 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. Newly appointed directors are required to have their appointments confirmed at the next annual general meeting. Accordingly, Dr FA Sonn and EG Dube will offer themselves for re-election at the upcoming annual general meeting and A Brookstein requires his appointment to be confirmed.

The role of the board is documented in a formal Board Charter that defines matters reserved for board approval. The Board Charter is reviewed and updated regularly in accordance with any new guidelines and legislation. During the year the Board Charter was therefore updated to achieve compliance with the new Companies Act.

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.

In appreciating the integration of strategy, risk, performance and sustainability, the board considers on an ongoing basis the material risks in the strategy and business plans. In this respect, the board is assisted by the audit and risk committees. Further, the board is responsible for the proactive and effective risk management of the company's IT in line with new regulations (see 'IT Governance').

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.

All directors 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.

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
Executive directors					
B Krone (CEO)	30 years, 3 months	3(4)	3(4) >	3(4) >	2(2)>
W van Houten (CFO)	5 years, 6 months	4(4)	4(4)	4(4)	2(2)>
A Brookstein *(appointed 26 August 2011)*	9 months	1(1)	n/a	n/a	n/a
Independent non-executive directors					
EG Dube	5 years, 6 months	4(4)	4(4)	2(4)	N/A
MB Mathabathe	3 years, 1 month	4(4)	N/A	N/A	1(2)
Dr FA Sonn&# *	5 years, 6 months	4(4)	4(4)	4(4)	2(2)
DM Thompson (Chairman)	6 years, 2 months	4(4)	4(4)	4(4)	2(2)

> Attended by invitation
** Human Resources and Nominations Committee chairman*
& Risk Committee chairman
 # Audit Committee chairman

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 reviewing the strategy which is conducted annually.

New appointments

The Human Resources and Nominations Committee, and the board as a whole, are responsible for new senior management appointments including the CEO. The committee conducts the process in a formal and transparent manner.

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 committee composition, minutes of the most recent board meeting and a board pack for the upcoming meeting.

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 group's formal mentorship programme will resume in 2013. In the year ahead, directors of the group's subsidiaries will attend the four-day AltX Directors' Induction Programme. The programme is run through the Wits Business School and endorsed by the Institute of Directors. It covers pertinent aspects of company law, stock exchange regulations, the roles, responsibilities and liabilities of directors, basic techniques of financial analysis and the importance of investor and media relations.

Share dealings and declarations of personal interest

The independence of directors is ascertained on a quarterly basis through formal mandatory declarations of personal interest/s. No 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. 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 published 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'.

During the year a director of a major subsidiary, Esorfranki Construction, sold an insignificant number of shares without authorisation to trade and in contravention of the JSE Listings Requirements. This resulted from an honest misunderstanding in terms of the in-house policies and procedures and the fact that the group was in a closed period. Prior to the restructuring, he was the managing director of Esorfranki Pipelines, a subsidiary which was not a major subsidiary of Esorfranki in terms of the JSE Listings Requirements, therefore his previous share dealings in this capacity were outside the ambit of the JSE Listings Requirements.

Subsidiaries

To ensure sound corporate governance throughout the group, the 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.

CORPORATE GOVERNANCE (CONTINUED)

Company secretary

The company secretary, iThemba Governance and Statutory Solutions (Pty) Limited, is an independent company secretarial practice providing services to numerous JSE listed companies. The board is comfortable that its representative, Monika Pretorius, is sufficiently qualified and skilled to act in accordance with and update directors in terms of the recommendations of the King III Report and other relevant regulations and legislation.

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 so as to support sustainable performance. The company secretary in conjunction with the CFO ensures that 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 exercise 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 committees. The exercise further includes a review of communications between management and the board as well as between the board and stakeholders. Each individual director will also perform a self-evaluation exercise during the year. The results of these will be reviewed by the board.

Board committees

During the year the board functions were supported by the following committees:

- EXCO
- Audit Committee
- Risk Committee
- Human Resources and Nominations Committee
- Social and Ethics Committee

In compliance with the new Companies Act, the group has constituted a Social and Ethics Committee.

The board is satisfied that all committees have fulfilled their responsibilities during the year. There is transparency and full disclosure from board committees to the board. Committee chairmen provide the board with a verbal report on recent committee activities and the minutes of committee meetings are available. In addition, the chairmen of the committees or a nominated committee member attend the company's annual general meeting to answer any questions from stakeholders pertaining to the relevant matters handled by their respective committees.

Attendance at board meetings and committee meetings is set out on page 48.

EXCO

Members: Bernie Krone (CEO), Wayne van Houten (CFO), Andy Brookstein (Civils), Arthur Field (Geotechnical), Roy McLintock (Geotechnical), Dave Gibbons (Pipelines), Richard Maynard (Civils), William Neuwenhuis (Group Human Resources)

The EXCO's responsibilities include assisting with the implementation of corporate governance compliance at group and subsidiary/divisional levels. The internal audit function and group risk manager advise the EXCO on their monitoring of compliance.

Audit Committee

Members: Dr FA Sonn (chairman), DM Thompson (independent non-executive director), EG Dube (independent non-executive director)

Please refer to the Audit Committee Report on page 65 for further details.

Risk Committee

Members: Dr FA Sonn (chairman), DM Thompson (independent non-executive director), EG Dube (independent non-executive director)

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 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 Esorfranki. The group risk officer independently oversees the risk management processes and reports directly to the committee. His observations, as detailed in last year's report, have either been addressed or are in the process of being addressed.

The main responsibility of the committee 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 company's risk management policy and plan;
- The company's Code of Ethics and Conduct and any corporate citizenship policies;
- Risk tolerance levels;
- The risk register as prepared by management, focusing on IT, fraud and reputational risks in addition to operational and other business risks;
- The internal audit reports detailing effectiveness of risk management;
- The company's compliance with legal and regulatory provisions, its articles of association; and
- Cases of employee conflicts of interest, misconduct or fraud.

During the year the committee conducted a self-evaluation and was satisfied with the functioning of the committee.

Human Resources and Nominations Committee (formerly the Remunerations Committee)

Members: Dr FA Sonn (chairman), DM Thompson (independent non-executive director), MB Mathabathe (independent non-executive director)

In line with the recommendation of King III, the committee comprises three independent non-executive directors and the chairman of the board is a member of the committee. The CEO is also a permanent invitee.

The committee assists the board in ensuring that the structure, size and effectiveness of the board are maintained. This objective is reached by giving due consideration to the number of executive, non-executive and independent non-executive directors appointed to the board and ensuring that the board and its committees are reviewed regularly, comprise the requisite mix of skills, experience, diversity and other qualities, align with the strategic direction and requirements of Esorfranki, and meet the requirements of sound corporate governance. The committee is also responsible for setting the criteria for board nominations, identifying and recommending nominees to the board, providing for succession planning and annually reviewing the directors' credentials.

The committee's charter further codifies the responsibility to oversee all aspects of human resources and determine the group's human resources strategy. 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.

During the year the committee was responsible for remuneration-related tasks including reviewing incentive schemes, annual bonuses, salary increases, executive employment contracts, grants, retirement and healthcare funding for executives and senior management and all benefits paid out to employees, including pensions, benefits in kind and other financial arrangements. The committee also had to assess executive and non-executive directors' remuneration and determine short- and long-term incentive pay structures for group executives.

CORPORATE GOVERNANCE (CONTINUED)

Remuneration philosophy

The remuneration philosophy reflects Esorfranki's commitment to best practice and its aspiration to be the 'employer of choice'.

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. These packages are structured on a 'cost to company' basis and include contributions to healthcare, disability, life insurance and retirement benefits.

The performance of the executive and Divisional committee teams will be appraised against a set of key performance areas as outlined on pages 10 and 11. These key performance areas are measured and remunerated against a balanced scorecard 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.

The fixed cost element of remuneration is maintained at modest levels and no upper limit on performance bonuses will be applied given our balanced scorecard.

There is currently no long-term incentive scheme in place, while the Esor Share Incentive Scheme, which provided share options to key employees other than executive directors will been wound up by March 2014 and will be replaced during the next financial year by a long-term incentive scheme aligned to the creating of shareholder value.

The remuneration packages and annual increases are benchmarked against market-related surveys, primarily that of Deloitte. Annual increases to executive remuneration packages are also adjusted for changes in the general cost of living while incentivised performance is calculated in terms of defined targets and key performance areas (KPAs), including risk-related elements.

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

Type of fee (per meeting)*	Existing fee in 2011/2012 R	Proposed annual fee – 2012/2013 R
Board		
Chairman	37 800	40 450
Board member	18 900	20 250
Audit Committee		
Chairman	25 200	26 950
Member	12 600	13 500
Risk Committee		
Chairman	7 875	8 430
Member	5 250	5 620
Human Resources and Nominations Committee		
Chairman	15 750	16 855
Member	10 500	11 235
Social and Ethics Committee		
Member	–	5 620

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

Directors' emoluments are set out in note 32 to the annual financial statements.

Prescribed officers

In accordance with the Companies Act, Esorfranki has defined its prescribed officers. Prescribed officers are those who exercise general control over the whole of a significant portion of the business and activities of the company or regularly participate to a material degree in the exercise of general executive control over, and management of the whole or a significant portion of, the business and activities of the company.

The remuneration of the prescribed officers of Esorfranki (excluding Esorfranki's executive directors) for the year ended 29 February 2012 are set out in summary below:

29 February 2012	Position	Salaries (CTC) R000's	Incentives R000's	Total R000's
RP McLintock	MD – Geotechnical	2 157	528	2 685
R Maynard	MD – Civils	2 136	178	2 314
AM Field	Director – Geotechinical	1 798	422	2 220
D Gibbons	MD – Pipelines	1 835	139	1 974
WJ Neuwenhuis	HR Director	1 664	133	1 797

Social and Ethics Committee

The committee comprises all executive and non-executive directors. The committee is chaired by the CEO of Esorfranki and supported by the HR director of Esorfranki Construction.

The committee is tasked with:

- Making recommendations on the remuneration policies and practices for the executive directors, senior management and the group in general (as is explained above under 'Human Resources and Nominations Committee');
- Making recommendations on the empowerment credentials of the group;
- Monitoring the corporate social responsibilities of the group; and
- Monitoring social and economic development in terms of goals including the United Nations Global Compact Principles, the OECD regarding corruption, Employment Equities Act, and B-BBEE;
- Overseeing good corporate citizenship;
- Overseeing the environment, health and public safety;
- Overseeing consumer relationships including the company's advertising, public relations, investor relations and compliance with consumer protection laws; and
- Overseeing labour and employment.

HUMAN RESOURCES

Esorfranki regards it employees as a crucial element for success, especially in an industry where skills are scarce. The group strives to attract and retain employees of the highest calibre to uphold the group's performance and sustainability and in parallel prioritises optimal working conditions and opportunities for development. Employee relations are addressed at group level by the Human Resources Director, William Neuwenhuis. Day-to-day issues are addressed on a decentralised divisional level.

The group has 1 698 permanent and 1 704 contract employees, reflecting the nature of an industry where work is project driven and employment is subject to tenders awarded.

Total number of permanent* employee movements.

Total number of permanent employees	Number of permanent employees hired: 1 March 2011 – 29 February 2012	Resignations: 1 March 2011 – 29 February 2012	Average years service	Longest serving employee: years service
Esorfranki Geotechnical	15	27	15	47
Esorfranki Civils	238	22	8	17
Esorfranki Pipelines	24	25	5	10

** Includes salaried and wage staff*

Remuneration practices

The group subscribes to the generic conditions of employment and wage rates for hourly paid employees as gazetted in a Sectoral Determination. Most conditions of employment are therefore already standardised. A number of company-specific conditions were addressed by the group during the year.

During the year remuneration practices 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 Benefit Fund.

Discovery Health is the group's healthcare service provider and employees have freedom of choice with respect to the specific plan. Intermediaries have been appointed to liaise between the healthcare provider and members.

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. Conditions of employment and wage rates for hourly paid employees are negotiated at industry level by the South African Federation of Civil Engineering Contractors (Employer Federation) and NUM and BCAWU. Conditions of employment for major contracts (e.g. Kusile Power Station) are found in Project Labour Agreements (PLAs) which take preference to industry collective agreements.

The unions with which the group engages are listed below:

Division	Union	Communication
Esorfranki Geotechnical	NUM BCAWU Johannesburg – NUM Natal – NUM 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 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

During the year there were a number of unprotected work stoppages. These were mainly as a result of specific site issues. Management addressed these issues with some loss in production.

The construction sites most affected were:
- N4 (Mooinooi) roads contract (Esorfranki Civils)
- BG3 pipelines contract (Esorfranki Pipelines)
- K71 roads contract (Esorfranki Civils).

Skills development and training

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.

91% of trainees during the year were from previously disadvantaged groups.

HUMAN RESOURCES (CONTINUED)

M = Male F = Female D = Disabled	African			Coloured			Indian			White		
	M	F	D	M	F	D	M	F	D	M	F	D
Induction	31									7		
Health and safety	491	17		2	3					23		
Operator recertification	54			1			2					
Update seminars	98	4		1	2		1			47	1	
Artisan courses	3									1		
HIV/AIDS	272	1										
Soft skills	1										1	
Diploma/degree	3	1		1				1		2		
In-house training	88	3		1						2		
Artisan learnership				1						3		
	1 041	26	0	7	5	0	3	1	0	85	2	0

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

In addition Esorfranki offers learnerships for employees working towards a technical qualification (e.g. mechanics). The group provides financial assistance and technical on the job training under the mentorship of an experienced and qualified artisan/manager.

The specialist nature of the work especially in the geotechnical division necessitates general technical training and development. In this regard on the job training is encouraged with older, experienced employees acting in mentorship roles for new incumbents.

To support the group's large plant fleet programme, operator/driver training is regarded as a priority.

During the year the group identified employees who will enter into an apprenticeship with the Manufacturing, Engineering and Related Services Sector Education and Training Authority, merSETA .

Although there is no formal succession policy in place, divisional managers continually train employees with identified potential. Succession planning in this respect is a day-to-day practice which is critical to address future labour demand in light of a limited external skills pool.

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 to obtain a qualification. 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.

Health and safety

The group is committed to a safe, healthy and hygienic working environment in compliance with the Occupational Health and Safety Act, 1993 (No. 85 of 1993). Employees are encouraged to familiarise themselves with the Act as well as to immediately report incidents to a supervisor trained to manage the consequences.

The group's zero-harm policy provides for regular safety inspections and legal compliance audits are continually performed. The policy is reviewed on an ongoing basis and external audits are performed as required in compliance with ISO 9001. The group safety officer is responsible for standardising health and safety procedures and the reporting and setting targets. A detailed risk assessment is undertaken for each product type and task, which is then rated according to a matrix and mitigated accordingly.

Internal audits are carried out monthly by the divisional co-ordinators and quarterly by the group SHEQ manager. All sites have to date achieved the required 80% level of compliance. During the year, external auditor, Legricon, conducted a legal compliance audit at head office and the BG 3 Pipeline site. The group achieved a high level of compliance.

Risk identification is part of the day-to-day operations with plant manuals and work method statements used to identify hazards and the associated risks. Once risks are identified preventative measures are implemented expediently.

Divisional/site safety officers and representatives support the group safety officer to ensure the effective management of this. It is, however, considered the duty of every manager and supervisor to take all reasonably practical measures and precautions to prevent health risks or injuries to employees. Site staff are trained and each site has a health and safety plan.

Overall the following measures are in place to prevent casualties and injuries:
- Divisional Safety Committees;
- Toolbox Talks;
- Safety alerts;
- Health and safety investigations; and
- Corrective disciplinary action in the event of proven negligence.

Health and safety training courses were presented during the year, which included:
- First Aid;
- Safety representative;
- Fire fighting as per legal requirements and client specification;
- Legal liabilities for supervision and management;
- Flagman training as per task requirements;
- Risk assessments training for supervision and management;
- Safety management course for safety officers;
- Working at heights for persons working above 1,5m above ground; and
- Traffic management

Esorfranki's 12 month rolling LTIFR, at 0,75, is significantly better than the industry norm of 1,33. During the year first aid and medical treatment cases were reported but no serious injuries or fatalities occurred.

Health

Employees attend a pre-employment medical screening conducted by contracted occupational health practitioners, which is then repeated on an annual basis. In areas where there is excessive noise and dust, employees are required to attend a semi-annual medical screening. In addition, on completion of projects, exit medicals are conducted.

Esorfranki is committed to fair, ethical and equitable treatment of employees living with HIV/AIDS. The group's proactive HIV/AIDS workplace programme includes education and awareness projects. HIV/AIDS awareness Toolbox Talks are conducted frequently where pamphlets are distributed and free condoms are issued. The talks address issues such as prevention, infection, treatment, voluntary and confidential pre-employment and employment testing, and support for infected and affected employees. During the year a formal awareness programme was conducted at the R21 site by an external consulting company.

An employee's status is treated as confidential. Should an HIV-positive employee voluntarily disclose their status, the relevant managers are briefed confidentially and informed to enable them to manage the situation. Employees are encouraged to seek medical treatment, counselling, ongoing testing and assistance from support groups. Voluntary counselling is provided by the contracted occupational health practitioners MIT, Occusure and Life Clinic.

TRANSFORMATION

Esorfranki recognises that integrating transformation into business practice is crucial for the sustainability of the group and South Africa generally. The group has a B-BBEE policy and improvement strategy in place to drive transformation in compliance with B-BBEE legislation. The group is currently B-BBEE Level 4. It is continually involved in seeking initiatives to better its B-BBEE scorecard, without detracting from investor value over the long-term.

Specific B-BBEE targets in FY2012 include enterprise development and procurement and in FY2013, ownership, managerial control and skills development.

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

BEE Code	Progress points – increase/ (decrease)	Scorecard rating (points)
Ownership	(8,67)	13,76
Management control	(0,51)	3,04
Employment equity	(0,16)	4,76
Skills development	3,01	6,14
Preferential procurement	4,18	18,90
Enterprise development	2,68	15
Socio-economic development	(0,55)	3,75

Ownership

During the year ownership was diluted by 8,67 points following the rights issue. In line with the Construction Charter's targeted increase from 27,5% to 30% ownership by December 2013, the group will consider a BEE transaction and has initiated an evaluation process to ensure that the strategic objectives, diversity and compliance with the codes are aligned and improved.

Management control

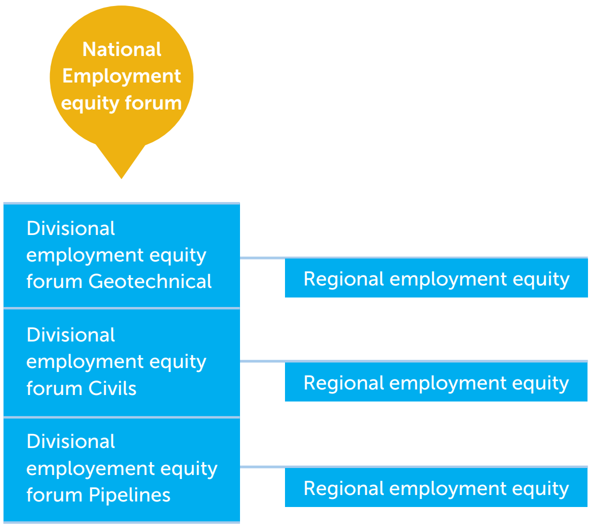
Management control was diluted following the appointment of a third executive director to the board during the year. The impact of the new appointment was a 0.51 point drop in the management control element of the rating. To address this, the group has prioritised the appointment a non-executive black female director.

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

Employment equity

The 2011 group reorganisation initiative required amendments to and revision of the Employment Equity policy and process, which the group is still finalising. However, the core drivers to employment equity – group values and management commitment to the process as a whole – remain unchanged.

Esorfranki's communication structures:



Esorfranki Construction

South African employment equity table:

Category/level	Actual 2011/2012		Target 2012/2013	
	Number	% of workforce which is black	Number	% of workforce which is black
Top management	8	0	8	0
Senior management	23	0	23	0
Professionally qualified	67	19	69	21,7
Skilled	357	59,7	367	60,8
Semi-skilled	476	92,9	490	93,10
Unskilled	269	99,6	277	99,6
Disabled	0	0	0	0
Total	1 200	78	1234	78,6

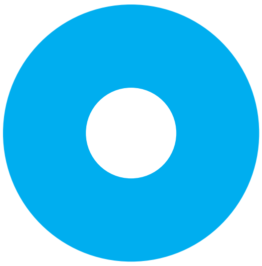
Discrimination on any level is not tolerated. Should any such discrimination occur it is immediately and appropriately dealt with in terms of the Code of Ethics and Conduct and attendant disciplinary procedures.

During the year there was one incident of discrimination reported. This was a grievance related to alleged sexual harassment. An external chairperson was appointed to address the issue and the matter was resolved. Occasionally complaints are received claiming discrimination regarding pay rates. Employees are entitled to minimum pay relative to job grades. If this is not the case the situation is rectified immediately. All grievances are/were addressed and resolved with the individuals concerned.

TRANSFORMATION (CONTINUED)

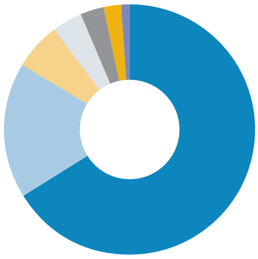
Gender breakdown

Top and senior management



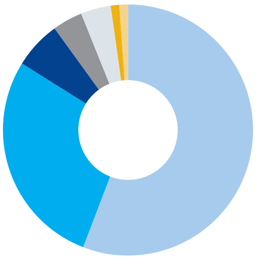
0%	African male	0%	African female
0%	Coloured male	0%	Coloured female
0%	Indian male	0%	Indian female
100%	White male	0%	White female

Professionally qualified



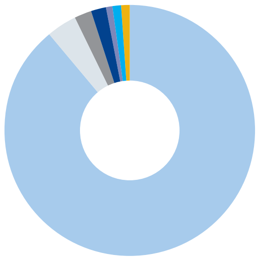
17%	African male	4%	African female
2%	Coloured male	1%	Coloured female
2%	Indian male	6%	Indian female
65%	White male	3%	White female

Skilled technical



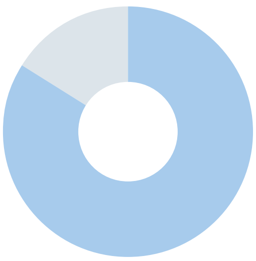
56%	African male	4%	African female
4%	Coloured male	0%	Coloured female
1%	Indian male	1%	Indian female
28%	White male	6%	White female

Semi-skilled



89%	African male	4%	African female
2%	Coloured male	1%	Coloured female
1%	Indian male	0%	Indian female
1%	White male	2%	White female

Unskilled



84%	African male	16%	African female
0%	Coloured male	0%	Coloured female
0%	Indian male	0%	Indian female
0%	White male	0%	White female

Skills development
Please refer to page 55 in "Human Resources".

Preferential procurement
Esorfranki improved its score in this regard from 14,72 to 18,9 points, out of a total score of 20. 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. The success of this initiative is evident in the full score achieved in this element of the scorecard.

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)
Please refer to page 62.

CASE STUDY

GREENFIELD PROJECT

In March 2011 the Roads Agency Limpopo ("RAL") awarded the Esorfranki Balekane joint venture a contract to upgrade 18,8km of gravel road to a 6m-wide tarred surface. The road is in the Capricorn District of the Limpopo province and the project is classified as 'greenfields', meaning that there is a predicted minimal disruption to the project work schedule – no traffic considerations, no heavy demolition work and minimal impact to the urban environment.

Esorfranki is fulfilling contract requirements by ensuring 50% of the team of 95 people working on the project are local job seekers. Community involvement is maintained through monthly meetings between site agents, engineers, the community liaison officer and the project steering committee.

Environmental issues are top-of-mind – care is being taken by Esorfranki to get permission from EnviroXcellence before indigenous trees or aloes are removed from the site.

Esorfranki CSI

CASE STUDY

SUNRISE SCHOOL PROJECTS

In November 2011 Esorfranki Civils cleared away several thousand cubic metres of soil and built a road and parking lot for the Sunrise School in Laudium, south west of Pretoria.

The Sunrise School offers educational, sporting and social interaction facilities to 80 mentally challenged young adults, and is a community initiative (partly subsidised by the Gauteng Education Department). Esorfranki's involvement in the project has unlocked the potential of the R5 million facility, that had remained unused due to town planning issues and the necessity for earthworks and a new road.

ENVIRONMENT

Esorfranki is committed to achieving high standards of environmental care in compliance with all applicable legislation and international best practice. Each of the divisions has strict site-specific EMPs in place on all contracts, which are independently evaluated annually. Each EMP is in compliance with the relevant environmental legislation and regulations and an overarching group Environmental Policy.

During the year a number of areas were identified for improvement including:

Problem	Remediation
Oil spills from plant	• Plant repaired and checked prior to use on site • Drip trays used for emergency purposes
Dust suppression	• Water carts used for dust suppression in addition to sprinkler systems

The group is committed to ongoing environmental education of its employees. During the year the following training took place:

- Environmental management;
- Use and handling of hazardous chemical substances;
- Hazardous spill clean-up procedures; and
- Refuelling procedures

The group also applies strategies for reducing, re-using and recycling resources. To conserve electricity, diesel and petrol-driven generators are used on certain sites. In addition water is recycled using oil separators and rain water is used for dust suppression. The group further recycles timber, which is cleaned and reused on site and scrap metal is sold to metal scrap yards for recycling. Natural resources are conserved and protected through environmentally sound waste generation and monitoring of emissions to air, water and land. The group is also a member of Birdlife South Africa.

Esorfranki will seek ISO 14001 accreditation in the year ahead.

CORPORATE SOCIAL INVESTMENT

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

During the year Esorfranki sponsored the University of the Witwatersrand flagship project, Wits Science Stadium.

The Wits Science Stadium will facilitate 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. Construction began in 2009 and the first lectures were held in July 2011 with further construction due for completion in 2012.

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

ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the consolidated annual financial statements and annual financial statements of Esorfranki, comprising the statements of financial position at 29 February 2012, 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, and the Directors' Report, in accordance with International Financial Reporting Standards, the AC500 Series issued by the Accounting Practices Board and the manner required by the Companies Act of South Africa.

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 annual financial statements and annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of consolidated annual financial statements and annual financial statements

The consolidated annual financial statements and annual financial statements of Esorfranki as identified in the first paragraph were approved by the board of directors on 24 May 2012 and signed on their behalf by:

B Krone
Chief Executive Officer

Germiston
24 May 2012

W van Houten
Chief Financial Officer

Germiston
24 May 2012

DECLARATION BY COMPANY SECRETARY

We declare that, to the best of our knowledge, all returns and notices in terms of the Companies Act required of a public company have, in respect of the year under review, been lodged with the Companies and Intellectual Properties Commission and that all such returns are true, correct and up to date.

iThemba Governance and Statutory Solutions (Pty) Limited
Company secretary

Germiston
24 May 2012

AUDIT COMMITTEE REPORT

for the year ended 29 February

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 48. 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.

AUDIT COMMITTEE REPORT (CONTINUED)

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 committee 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, Wayne van Houten.

The Audit Committee recommended the annual financial statements for the year ended 29 February 2012, 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.

F. A. Sonn

Dr FA Sonn
Audit Committee Chairman

Germiston
24 May 2012

INDEPENDENT AUDITOR'S REPORT

To the members of Esorfranki Limited

We have audited the consolidated annual financial statements and the annual financial statements of Esorfranki Limited, which comprise the statements of financial position at 29 February 2012, 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, and the directors' report as set out on pages 68 to 117.

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 in the manner required by the Companies Act of South Africa and for such internal control as the directors determine 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 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 29 February 2012, 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 in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor

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

24 May 2012

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 29 February 2012 which have been audited in compliance with the Companies Act. The preparation of these annual financial statements was supervised by the CFO, Wayne van Houten.

Nature of business

The nature of the group's business is set out in the group profile on pages 02 and 07 of the integrated report, of which this Directors' Report forms part.

Financial results

Consolidated revenue increased to R1,772 billion from R1,366 billion in the previous year. Earnings before interest, depreciation, impairments, amortisations and taxation ("EBITDA") increased by 170,3% to R132,7 million from R49,1 million. Headline earnings per share ("HEPS") also increased by 148% to a profit of 6,2 cents per share (2011: loss of 12,9 cents). Net asset value ("NAV") per share increased to 241,5 cents (2011: 238,8) 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 R257,7 million (2011: R50,4 million). The capital expenditure programme is detailed in note 36 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 (2011: 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 116. 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 that this scheme will be discontinued and no further options will be granted. 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 698 211 options (2011: 1 218 215) 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	228 585	R1,00
30 November 2006	13 March 2012	1 332 315	R1,60
14 December 2009	13 March 2014	5 525 598	R2,50

Interest in subsidiaries

Details of the company's subsidiaries are shown in notes 35 and 38 to the annual financial statements.

Special resolutions in subsidiaries

During the year 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' REPORT (CONTINUED)

Directors

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

Executive directors

B Krone (CEO)
W van Houten (CFO)
AC Brookstein (Appointed 26 August 2011)

Independent non-executive directors

EG Dube
MB Mathabathe
Dr FA Sonn
DM Thompson

No directors resigned during the year.

Dr F A Sonn and EG Dube will 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, A Brookstein 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	2012	2011	2012	2011	2012	2011
EG Dube	–	–	7 659 464	10 000 000	7 659 464	10 000 000
MB Mathabathe	4 000 000	4 000 000	–	–	4 000 000	4 000 000
Dr FA Sonn	–	–	3 975 000	3 975 000	3 975 000	3 975 000
DM Thompson	–	–	50 000	100 000	50 000	100 000
B Krone	13 509 394	13 509 394	–	–	13 509 394	13 509 394
W van Houten	762 908	1 152 908	–	–	762 908	1 152 908
AC Brookstein	6 180 000	–	–	–	6 180 000	–

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 32 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.

STATEMENTS OF FINANCIAL POSITION

at 29 February

	Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Assets					
Non-current assets		1 151 181	966 187	679 632	677 467
Property, plant and equipment	4	737 312	565 775	–	–
Intangible assets	5	88 226	90 117	–	–
Goodwill	6	305 715	305 715	–	–
Financial assets at fair value through profit or loss	7	1 291	–	–	–
Deferred tax asset	17	18 637	4 580	–	–
Investments in subsidiaries	8	–	–	679 632	677 467
Current assets		665 288	498 164	20 357	53 763
Inventories	9	20 622	16 983	–	–
Non-current assets held for sale	10	3 293	–	–	–
Other investments	11	–	420	–	–
Unsecured loans	12	–	–	20 335	53 583
Taxation		15 617	3 855	–	–
Trade and other receivables	13	529 103	413 768	–	124
Cash and cash equivalents	29	96 653	63 138	22	56
Total assets		1 816 469	1 464 351	699 989	731 230
Equity and liabilities					
Share capital and reserves		937 432	703 156	635 754	721 617
Share capital and premium	14	592 045	389 449	608 232	408 232
Equity compensation reserve		16 188	14 444	16 188	14 023
Foreign currency translation reserve		(21 395)	(33 188)	–	–
Common control reserve		–	–	–	261 107
Retained earnings		350 594	332 451	11 334	38 255
Non-current liabilities		316 658	195 562	–	–
Secured borrowings	15	179 911	84 516	–	–
Post-retirement benefits	16	1 806	1 657	–	–
Deferred tax liability	17	134 941	109 389	–	–
Current liabilities		562 379	565 633	64 235	9 613
Current portion of secured borrowings	15	105 923	241 527	–	–
Unsecured loans	12	–	–	63 482	579
Bank overdraft	29	3 047	–	–	–
Taxation		15 872	9 953	–	–
Provisions	18	16 350	3 213	–	–
Trade and other payables	20	421 187	310 940	753	9 034
Total equity and liabilities		1 816 469	1 464 351	699 989	731 230

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 29 February

		Group		Company	
		2012	2011	**2012**	2011
	Note	**R'000**	R'000	**R'000**	R'000
Revenue	21	**1 771 692**	1 366 433	**–**	6 154
Cost of sales		**(1 549 955)**	(1 204 988)	**–**	–
Gross profit		**221 737**	161 445	**–**	6 154
Other income	22	**1 705**	3 654	**218**	–
Operating expenses		**(90 786)**	(116 033)	**(2 309)**	(1 519)
Profit/(loss) before interest, tax, amortisation, impairments and depreciation	23	**132 656**	49 066	**(2 091)**	4 635
Depreciation, impairments and amortisation		**(79 510)**	(65 489)	**(286 488)**	–
Results from operating activities		**53 146**	(16 423)	**(288 579)**	4 635
Finance costs	33	**(73 233)**	(54 371)	**(2)**	(5)
Finance income	33	**49 726**	23 703	**–**	121
Profit/(loss) before income tax		**29 639**	(47 091)	**(288 581)**	4 751
Income tax (expense)/income	24	**(11 423)**	6 330	**553**	(4 153)
Profit/(loss) after tax		**18 216**	(40 761)	**(288 028)**	598
Other comprehensive income:					
Foreign currency translation differences for foreign operations		**13 655**	(21 334)	**–**	–
Actuarial loss on post-retirement benefits		**(73)**	(261)	**–**	–
Income tax on translation differences		**(1 862)**	2 441	**–**	–
Other comprehensive income for the period, net of tax		**11 720**	(19 154)	**–**	–
Total comprehensive income attributable to:					
Owners of the company	25	**29 936**	(59 915)	**(288 028)**	598
Basic earnings/(loss) per share (cents)		**4,7**	(13,9)	**(73,1)**	0,2
Diluted earnings/(loss) per share (cents)		**4,7**	(13,8)	**(73,1)**	0,2

STATEMENTS OF CHANGES IN EQUITY

for the year ended 29 February

Group	Share capital R'000	Share premium R'000	Equity compen-sation reserve R'000	Foreign currency trans-lation reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 1 March 2010	292	396 664	8 253	(14 295)	417 115	808 029
Loss for the year	–	–	–	–	(40 761)	(40 761)
Other comprehensive income						
Foreign currency translation differences from foreign operations	–	–	–	(18 893)	–	(18 893)
Post-retirement benefit adjustment	–	–	–	–	(261)	(261)
Total other comprehensive income	–	–	–	(18 893)	(261)	(19 154)
Total comprehensive income for the year	–	–	–	(18 893)	(41 022)	(59 915)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share issue expense	–	(8 768)	–	–	–	(8 768)
Dividends to equity holders	–	–	–	–	(43 642)	(43 642)
Share-based payment transactions	–	–	6 191	–	–	6 191
Treasury shares – options exercised	2	1 259	–	–	–	1 261
Total contributions by and distributions to owners	2	(7 509)	6 191	–	(43 642)	(44 958)
Balance at 28 February 2011	294	389 155	14 444	(33 188)	332 451	703 156
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 differences from foreign operations	–	–	–	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

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

for the year ended 29 February

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 2010	302	416 698	8 253	261 107	82 583	768 943
Profit for the year	–	–	–	–	598	598
Total comprehensive income for the year	–	–	–	–	598	598
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share issue expense	–	(8 768)	–	–	–	(8 768)
Dividends to equity holders	–	–	–	–	(44 926)	(44 926)
Share-based payment transactions	–	–	5 770	–	–	5 770
Total contributions by and distributions to owners	–	(8 768)	5 770	–	(44 926)	(47 924)
Balance at 28 February 2011	302	407 930	14 023	261 107	38 255	721 617
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

STATEMENTS OF CASH FLOW

for the year ended 29 February

	Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Cash flows from operating activities		124 205	58 075	(9 697)	(35 471)
Cash receipts from customers		1 541 006	1 464 009	–	6 154
Cash paid to suppliers and employees		(1 385 546)	(1 330 934)	(10 248)	3 257
Cash generated from/(utilised by) operations	26	155 460	133 075	(10 248)	9 411
Dividends paid		–	(43 642)	–	(44 926)
Finance income		49 726	23 703	–	121
Finance costs		(73 090)	(54 224)	(2)	(5)
Taxation paid	27	(7 891)	(837)	553	(72)
Cash flows from investing activities		(256 057)	(41 979)	–	(6 425)
Additions to property, plant and equipment		(257 722)	(50 373)	–	–
Proceeds on disposal of property, plant and equipment		8 872	3 032	–	–
Investments (acquired)/disposed		(7 207)	6 342	–	(6 425)
Disposal of business	28	–	(980)	–	–
Cash flows from financing activities		162 320	(69 820)	9 663	41 598
(Increase)/decrease in unsecured loans		–	–	(190 337)	41 598
Decrease in secured borrowings		(40 209)	(70 665)	–	–
Proceeds from share issue net of issue expenses		202 596	1 261	200 000	–
Post-retirement benefits paid		(67)	(416)	–	–
Net increase/(decrease) in cash and cash equivalents		30 468	(53 725)	(34)	(298)
Net cash and cash equivalents at beginning of year		63 138	116 863	56	354
Cash and cash equivalents at end of year	29	93 606	63 138	22	56

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 29 February

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 29 February 2012 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 37).

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, the AC500 Series issued by the Accounting Practices Board, 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 33.

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 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 20).

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 31.

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 18.

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 16.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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	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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

2. Presentation of annual financial statements (continued)

2.7 Basis of consolidation

Investment in 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.

The non-controlling interest is stated at the non-controlling interest proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses are attributed to the non-controlling interest.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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.

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. 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 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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 (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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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 share-based payment 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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 29 February 2012, and have not been applied in preparing these consolidated financial statements:

Standard/ Interpretation		Effective date
IFRS 11 Joint Arrangements	**IFRS 11 Joint Arrangements** IFRS 11 establishes that classification of the joint arrangement depends on whether parties have rights to and obligations for the underlying assets and liabilities. According to IFRS 11, joint arrangements are divided into two types, each having its own accounting model: • Joint operations whereby the jointly controlling parties, known as joint operators, have rights to assets and obligations for the liabilities, relating to the arrangement. • Joint ventures whereby the joint controlling parties, known as joint venturers, have rights to the net assets of the arrangement. In terms of IFRS 11, all joint ventures will have to be equity accounted. The impact on the financial statements for Esorfranki Limited cannot be reasonably estimated as at 29 February 2012.	Annual periods beginning on or after 1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	**IFRS 12 Disclosure of Interests in Other Entities** IFRS 12 combines, in a single standard, the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. The required disclosures aim to provide information to enable user to evaluate: • The nature of, and risks associated with, an entity's interests in other entities, and • The effects of those interests on the entity's financial position, financial performance and cash flows. The adoption of the new standard will increase the level of disclosure provided for the entity's interests in subsidiaries, joint arrangements, associates and structured entities.	Annual periods beginning on or after 1 January 2013
IFRS 13 Fair Value Measurement	**IFRS 13 Fair Value Measurement** 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 disclosures requirements for fair value measurements. The key principles in IFRS 13 are as follows: • Fair value is an exit price • Measurement considers characteristics of the asset or liability and not entity-specific characteristics • Measurement assumes a transaction in the entity's principle (or most advantageous) market between market participants • Price is not adjusted for transaction costs • Measurement maximises the use of relevant observable inputs and minimises the use of unobservable inputs • The three-level fair value hierarchy is extended to all fair value measurements The impact on the financial statements for Esorfranki Limited cannot be reasonably estimated as at 29 February 2012.	Annual periods beginning on or after 1 January 2013
IAS 27 Separate Financial Statements (2011)	**IAS 27 (2011) Separate Financial Statements** 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. The adoption of IAS 27 (2011) will not have a significant impact on the company's separate financial statements.	Annual periods beginning on or after 1 January 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

3. New accounting pronouncements (continued)

New standards and interpretations not yet adopted (continued)

Standard/ Interpretation		Effective date
IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	**Amendments to IFRS 7 Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities** 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.	Annual periods beginning on or after 1 January 2013
IFRS 9 (2009) Financial Instruments	**IFRS 9 (2009) Financial Instruments** IFRS 9 addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39. 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. The impact on the financial statements for Esorfranki Limited cannot be reasonably estimated as at 29 February 2012.	Annual periods beginning on or after 1 January 2015
IFRS 9 (2010) Financial Instruments	**IFRS 9 (2010) Financial Instruments** IFRS 9 (2010) addresses the measurement and classification of financial liabilities and will replace the relevant sections of IAS 39. 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: • 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 reassessed. • 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. 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 Reassessment of Embedded Derivatives. The impact on the financial statements for Esorfranki Limited cannot be reasonably estimated as at 29 February 2012.	Annual periods beginning on or after 1 January 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

4. Property, plant and equipment

Group	Cost R'000	Accumulated depreciation and impairment losses R'000	Carrying value R'000
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
2011			
Land and buildings	63 651	(2 114)	61 537
Plant and equipment	741 790	(266 208)	475 582
Motor vehicles	73 453	(45 808)	27 645
Furniture and fittings	1 946	(1 490)	456
Computers	2 292	(1 737)	555
	883 132	(317 357)	565 775

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	Reclassi-fications R'000	Translation 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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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	Translation adjustments R'000	Carrying value at end of year R'000
2011							
Land and buildings	43 300	21 442	–	(331)	(1 200)	(1 674)	61 537
Plant and equipment	514 319	27 765	(6 608)	(52 258)	–	(7 636)	475 582
Motor vehicles	37 328	808	(2 682)	(7 401)	–	(408)	27 645
Furniture and fittings	699	21	(43)	(221)	–	–	456
Computers	783	337	(107)	(458)	–	–	555
	596 429	50 373	(9 440)	(60 669)	(1 200)	(9 718)	565 775

Included in the carrying amounts above are items of plant and equipment which have been impaired. The accumulated impairment at year-end was R10,1 million (2011: R10,1 million).

Certain plant and equipment with a carrying value of R399 million (2011: R277 million) is encumbered to secure the borrowings (instalment sale financing) set out in notes 15 and 19. Further to this, special notarial bonds to the value of R250 million (2011: R320 million) have been registered over the movable assets of the geotechnical division, with the carrying value of R149 million (2011: R164 million) as shown in notes 15 and 19 to secure short-term working capital facilities. This notorial bond expires on 31 May 2012.

5. Intangible assets

Group	Cost R'000	Accumulated amortisation and impairment R'000	Carrying value R'000
2012			
"Franki" brand name	**94 529**	**(6 303)**	**88 226**
"GCD" brand name	**2 117**	**(2 117)**	**–**
	96 646	**(8 420)**	**88 226**
2011			
"Franki" brand name	94 529	(4 412)	90 117
"GCD" brand name	2 117	(2 117)	–
	96 646	(6 529)	90 117

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
2012					
"Franki" brand name	**50 years**	**90 117**	**(1 891)**	**–**	**88 226**
		90 117	**(1 891)**	**–**	**88 226**
2011					
"Franki" brand name	50 years	92 008	(1 891)	–	90 117
"GCD" brand name	10 years	1 729	(105)	(1 624)	–
		93 737	(1 996)	(1 624)	90 117

The GCD brand name was fully impaired in the prior year as the business unit was sold to Esor Africa on 31 August 2010 to trade under the Esor Africa name.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

6. Goodwill

Group	Cost R'000	Accumulated impairment R'000	Carrying value R'000
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**
2011			
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
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**
2011				
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:

	2012 R'000	2011 R'000
Geotechnical	**469 245**	459 918
Civils	**474 874**	542 107
Pipelines	**188 777**	175 006
	1 132 896	1 270 210

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

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 at 6,5% (2011: 6,5%) per annum for the forecast period, based on past experience;
- Gross margins were aligned downwards to 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 20,61% to 23,85% (2011: 15,77% to 17,77%) 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% (2011: 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	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	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 m revenue on a contract with a term of 16 months				
Cost	7 627	–	–	–
Amortisation	(2 134)	–	–	–
Fair value adjustment	(329)	–	–	–
Carrying value	5 164	–		
Disclosed as:				
Non-current assets	1 291	–	–	–
Trade and other receivables	3 873	–	–	–
	5 164	–	–	–
8. Investments in subsidiaries				
Shares at cost	–	–	679 632	677 467
Details of the investments in subsidiaries are shown in notes 35 and 38.				
9. Inventories				
Consumables	20 622	16 983	–	–
	20 622	16 983	–	–
10. Non-current assets held for sale				
A property in Durban, KwaZulu-Natal which formed part of the Geotechnical business unit has been presented as held for sale. Efforts to sell this property have commenced and the sale is expected to be completed by May 2012. The expected proceeds of this sale are approximately R30 million. The proceeds of this sale have been ceded to Standard Bank in support of the groups working capital facility.	3 293	–	–	–
11. Other investments				
– contingency policy	–	420	–	–
	–	420	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

	Interest rate %	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
12. Unsecured loans					
Esor Africa Proprietary Limited	–	–	–	17 957	37 671
Esor Share Incentive Scheme Trust	–	–	–	2 378	15 912
Esorfranki Construction Proprietary Limited	–	–	–	(63 482)	(579)
		–	–	(43 147)	53 004
Disclosed as follows:					
Current assets		–	–	20 335	53 583
Current liabilities		–	–	(63 482)	(579)
		–	–	(43 147)	53 004

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 19). This securitisation was released in March 2011.

Impairments of R282 million and R4,49 million were raised as at 29 February 2012 against the unsecured loans receivable from Esor Africa (consequent to the group reorganisation) and the Esor Share Incentive Scheme Trust respectively.

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
13. Trade and other receivables				
Trade receivables	464 429	385 168	–	–
Financial assets at fair value through profit or loss	3 873	–	–	–
Sundry debtors and prepayments	60 801	28 600	–	124
	529 103	413 768	–	124
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	1 771 692	1 366 433	–	–
Amounts received	(1 508 533)	(1 146 520)	–	–
Retentions receivable	116 065	75 642	–	–
	379 224	295 555	–	–
Amounts due from contract customers	464 429	385 168	–	–
Amounts due to contract customers (refer note 20)	(85 205)	(89 613)	–	–
	379 224	295 555	–	–

The total carrying value of trade receivables have been pledged to secure the borrowing facilities mentioned in notes 15 and 19.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
14. Share capital and premium				
Authorised				
500 000 000 ordinary shares of R0,001 each	500	500	500	500
Issued				
395 185 430 (2011: 302 162 174) ordinary shares of R0,001 each	395	302	395	302
Less: 7 086 498 (2011: 7 284 709) treasury shares held by the Esor Share Incentive Scheme	(7)	(8)	–	–
	388	294	395	302
Share premium	591 657	389 155	607 837	407 930
Balance at beginning of year	389 155	396 664	407 930	416 698
Premium on shares issued	202 502	1 259	199 907	–
Share issue expenses written off	–	(8 768)	–	(8 768)
	592 045	389 449	608 232	408 232

Share movements

The following changes were made to issued share capital during the year:
The company issued 93 023 256 ordinary shares for R2,15 on 14 March 2011 in terms of the Rights Issue as detailed in SENS announcements, the last of which is dated 8 March 2011. There were no movements in the issued share capital during the comparative period.

15. Secured borrowings

	Monthly instalment		Group		Company	
	Group R'000	Company R'000	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Instalment sale agreements	9 260	–	285 817	148 347	–	–
Junonia Investments No 3 (Pty) Limited	–	–	–	177 605	–	–
Mortgage bond	7	–	17	91	–	–
Total secured borrowings			285 834	326 043	–	–
Current portion included under current liabilities			(105 923)	(241 527)	–	–
			179 911	84 516	–	–

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%. Instalment sale agreements are for periods not exceeding 60 months. The last final repayment date on the instalment agreements is December 2016.

The Junonia Investments No 3 (Pty) Limited financing comprised two loans given by Junonia Investments to Esor Africa (Pty) Limited. These loans, ultimately provided by The Standard Bank of South Africa Limited and ABSA Bank Limited, were secured by a cession of book debts, proceeds from short and long-term insurance and a special notarial bond over movable assets (refer note 4). Interest was levied at a rate of between JIBAR (three months) plus 220 basis points and JIBAR (one month) plus 250 basis points.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

15. Secured borrowings (continued)

Following renegotiation of the terms and settlement conditions, this loan was settled during March 2011.

The company undertook a rights issue, which was fully underwritten, that raised R200 million on 8 March 2011. The proceeds of this rights issue was used to settle the debt to Junonia Investments No 3 (Pty) Limited on 18 March 2011. The terms of the settlement included a waiver of the imposed loan covenants which monitored four specific ratios, namely pre and post dividend debt service cover, debt: EBITDA, and EBITDA: interest payable. There were no imposed loan or facility covenants as at 29 February 2012 (refer note 12 for details of subordination agreements entered into by group companies as security).

The mortgage bond is secured by a property owned by a group company, with interest levied at the prime lending rate. The carrying value of the underlying property is R16,3 million (2011: R14,5 million).The final repayment date on this bond is 1 October 2012.

At year-end, the prime interest rate was 9% (2011: 9%).

		Group		Company	
		2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
16. 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		**1 657**	1 665	**–**	–
Current contributions paid		**(67)**	(416)	**–**	–
Settlement of liability		**–**	–	**–**	–
Actuarial loss charged to other comprehensive income		**73**	261	**–**	–
Interest cost		**143**	147	**–**	–
Balance at 29 February		**1 806**	1 657	**–**	–
The principal actuarial assumptions applied in the determination of the fair values include:					
Consumer price inflation	(%)	**5,50**	3,70	**–**	–
Discount rate	(%)	**8,25**	9,00	**–**	–
Medical cost trend rate	(%)	**7.50**	7,75	**–**	–
Number of employees in the fund		**6**	6	**–**	–
Date of last actuarial valuation: 29 February 2012					
Date of next actuarial valuation: 28 February 2013					
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 health care cost inflation assumption on the contractual liability and the annual expense after taxation is as follows:					
1% increase in health care cost		**156**	144	**–**	–
1% decrease in health care cost		**(138)**	(127)	**–**	–
1% increase in interest cost		**(11)**	(9)	**–**	–
1% decrease in interest cost		**9**	7	**–**	–
Defined contributions					
Contributions to retirement benefit funds		**32 112**	20 557	**–**	–

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

	Group		Company	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
17. Deferred tax				
Balance at beginning of year	104 809	125 345	–	(725)
Movements during the year:				
Translation adjustment	258	(1 522)	–	–
Movements in FCTR and other	1 862	(2 441)	–	–
Temporary differences	9 375	(16 573)	–	725
Balance at end of year	116 304	104 809	–	–
The balance comprises:				
Property, plant and equipment	105 071	87 328	–	–
Intangible assets	24 704	25 233	–	–
Net investment in foreign operations	(4 261)	(6 124)	–	–
Provisions and accruals	(20 906)	(17 556)	–	–
Retentions receivable	32 162	21 059	–	–
Advance billings	(11 874)	(9 229)	–	–
Allowance for future expenditure	13 252	15 753	–	–
Accrued and deferred income	11 718	8 293	–	–
Assessed loss	(34 047)	(20 439)	–	–
Other	485	491	–	–
	116 304	104 809	–	–
Non-current assets	(18 637)	(4 580)	–	–
Non-current liabilities	134 941	109 389	–	–
	116 304	104 809	–	–
18. Provisions				
Staff bonuses				
opening balance	3 213	21 087	–	–
utilised	(3 213)	(18 181)	–	–
created	16 350	307	–	–
Closing balance	16 350	3 213	–	–
Total provisions	16 350	3 213	–	–

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
19. Borrowing facilities				
Available facilities				
– asset finance	**384 541**	173 006	**–**	–
– business acquisition financing	**–**	177 605	**–**	–
– contract guarantees	**1 218 000**	999 183	**–**	–
– overdraft	**61 220**	–	**–**	–
– forward exchange contracts	**5 000**	15 000	**–**	–
– financial derivatives	**16 000**	91	**–**	–
– mortgage bond	**55**	–	**–**	–
	1 684 816	1 364 885	**–**	–
Facilities utilised				
– asset finance	**278 921**	148 347	**–**	–
– business acquisition financing	**–**	177 605	**–**	–
– contract guarantees	**421 372**	365 909	**–**	–
– overdraft	**3 047**	–	**–**	–
– financial derivatives	**5 164**	–	**–**	–
– mortgage bonds	**17**	91	**–**	–
	708 521	691 952	**–**	–
The overdraft facility reduces by R20 million per month from March 2012 to May 2012 after which new facilities will be negotiated when required.				
Companies within the group have provided securities to secure these facilities (refer note 15).				
20. Trade and other payables				
Trade payables	**120 147**	119 966	**46**	–
Accruals	**168 565**	73 114	**707**	9 034
Amounts due to customers (refer note 13)	**85 205**	89 613	**–**	–
Sundry payables	**47 270**	28 247	**–**	–
	421 187	310 940	**753**	9 034
Included in amounts due to customers are amounts in respect of future losses on contracts amounting to R13,4 million (2011: R10,9 million).				
21. Revenue				
Contract revenue	**1 771 692**	1 366 433	**–**	–
Dividends received	**–**	–	**–**	6 154
	1 771 692	1 366 433	**–**	6 154
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.				
22. Other income				
Profit on disposal of plant and equipment	**585**	–	**–**	–
Profit on disposal of subsidiary	**–**	3 654	**–**	–
Sundry income	**1 120**	–	**218**	–
	1 705	3 654	**218**	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
23. 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	585	121	–	–
Exchange gain on amounts due from subsidiaries and foreign branches	48 344	21 367	–	–
Expenditure				
Auditor remuneration	3 430	3 321	487	413
– Audit fees	3 210	2 746	487	413
– Other services	220	575	–	–
Depreciation of property, plant and equipment	77 619	60 669	–	–
Amortisation of intangible assets	1 891	1 996	–	–
Impairment of intangible assets	–	1 624	–	–
Impairment of property, plant and equipment	–	1 200	–	–
Impairment of unsecured loans	–	–	286 488	–
Loss on disposal of property, plant and equipment	8 682	6 523	–	–
Exchange loss on amounts due from subsidiaries and foreign branches	51 549	19 687	–	–
Staff costs	456 174	435 596	–	–
Operating lease charges (refer note 36)	93 852	21 342	–	–
– equipment hire	86 190	11 016	–	–
– motor vehicles	3 130	4 425	–	–
– property rentals	4 532	5 901	–	–
Number of employees at year-end	3 402	3 184	–	–
24. Income tax expense				
South African				
Normal taxation	(7 831)	109	(553)	160
– current tax	5	9 055	–	–
– prior year (over)/under provision	(7 836)	(8 946)	(553)	160
Deferred tax	6 995	(16 889)	–	725
– current	(3 997)	(21 236)	–	725
– prior year under provision	10 992	4 347	–	–
Secondary tax on companies ("STC")	–	3 910	–	3 268
Foreign				
Normal tax	9 879	6 224	–	–
– current	8 811	10 853	–	–
– prior year under/(over) provision	1 068	(4 629)	–	–
Deferred	2 380	316	–	–
– current	1 987	504	–	–
– prior year under/(over) provision	393	(188)	–	–
	11 423	(6 330)	(553)	4 153
Reconciliation of tax rates:	%	%	%	%
Normal rate of taxation	28,00	28,00	28,00	28,00
Adjusted for:	10,54	(14,56)	(27,81)	59,41
– change in tax rates	(0,51)	–	–	–
– foreign tax rates	(13,58)	1,85	–	–
– exempt income	(7,25)	(1,49)	–	(36,47)
– secondary tax on companies	–	8,30	–	68,78
– prior year under/(over) provision	5,02	(20,00)	–	3,37
– permanent differences	9,75	7,29	–	–
– non-deductible expenditure	15,93	7,43	–	–
– other	1,18	(17,94)	(27,81)	23,73
	38,54	(13,44)	0,19	87,41

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

		Group		Company	
		2012 R'000	2011 R'000	2012 R'000	2011 R'000
25. Earnings per share					
Basic earnings/(loss) per share	(cents)	4,7	(13,9)	(73,1)	0,2
Diluted earnings/(loss) per share	(cents)	4,7	(13,8)	(73,1)	0,2
Headline earnings/(loss) per share	(cents)	6,2	(12,9)	(20,7)	0,2
Diluted headline earnings/(loss) per share	(cents)	6,2	(12,8)	(20,7)	0,2
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		18 216	(40 761)	(288 028)	598
Net loss on disposal of property, plant and equipment		5 830	4 609	–	–
Gain on disposal of subsidiary		–	(3 654)	–	–
Impairment of intangible assets and property, plant and equipment		–	2 032	206 271	–
Headline earnings/(loss)		24 046	(37 774)	(81 757)	598
Weighted average number of ordinary shares					
Issued ordinary shares		395 185 430	302 162 174	395 185 430	302 162 174
Effect of own shares held		(7 437 511)	(8 398 823)	–	–
Effect of shares issued		(1 016 648)	–	(1 016 648)	–
Weighted average number of shares		386 731 271	293 763 351	394 168 782	302 162 174
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		386 731 271	293 763 351	394 168 782	302 162 174
Effect of share options in issue		–	791 442	–	–
Diluted weighted average number of shares		386 731 271	294 554 793	394 168 782	302 162 174

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
26. Reconciliation of profit before taxation to cash generated from/(utilised by) operations				
Profit/(loss) before taxation	29 639	(47 091)	(288 581)	4 751
Adjusted for:				
– finance income	(49 726)	(23 703)	–	(121)
– profit on disposal of property, plant and equipment	(585)	(121)	–	–
– loss on disposal of property, plant and equipment	8 682	6 523	–	–
– disposal of subsidiary	–	(3 654)	–	–
– foreign currency adjustment	2 217	(14 606)	–	–
– depreciation of property, plant and equipment	77 619	60 669	–	–
– amortisation of intangible assets	1 891	1 996	–	–
– impairment of intangible assets	–	1 624	–	–
– impairment of unsecured loans	–	–	286 488	
– amortisation and fair value adjustments of financial assets	2 463	–	–	
– share-based payments	1 744	6 191	–	5 770
– impairment of property, plant and equipment	–	1 200	–	–
– finance costs	73 233	54 371	2	5
Operating profit before working capital changes	147 177	43 399	(2 091)	10 405
Working capital changes	8 283	89 676	(8 157)	(994)
(Increase)/decrease in trade and other receivables	(111 462)	86 086	124	(6)
Increase in inventories	(3 639)	(2 156)	–	–
Increase/(decrease) in trade and other payables	110 247	23 620	(8 281)	(988)
Increase/(decrease) in provisions	13 137	(17 874)	–	–
Cash generated from/(utilised by) operations	155 460	133 075	(10 248)	9 411
27. Taxation paid				
Amounts (owing)/receivable at beginning of year	(6 098)	3 308	–	3 356
Current tax charged to profit or loss	(2 048)	(10 243)	553	(3 428)
Amount owing at end of year	255	6 098	–	–
	(7 891)	(837)	553	(72)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
28. Disposal of subsidiary				
During the prior year, effective 1 March 2010, the Civils Group disposed of its 62% interest in Balekane Construction (Pty) Limited as part of the restructuring of our empowerment interests. The subsidiary was sold to Mr MB Mathabathe, a director of Esorfranki Limited. The assets and liabilities of this company were as follows on the date of disposal:				
Property, plant and equipment	–	6	–	–
Trade and other receivables	–	15	–	–
Cash	–	1 029	–	–
Deferred taxation	–	1 470	–	–
Trade and other payables	–	(6 125)	–	–
Net liabilities	–	(3 605)	–	–
Less:				
Cash disposed	–	(1 029)	–	–
Profit on sale of subsidiary	–	3 654	–	–
Net cash paid on disposal of subsidiaries	–	(980)	–	–
29. Cash and cash equivalents				
Cash and cash equivalents included in the statement of cash flows include the following amounts:				
Cash and cash equivalents	96 653	63 138	22	56
Bank overdraft	(3 047)	–	–	–
Cash and cash equivalent at bank and on hand	93 606	63 138	22	56
30. 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	–	–
Esorfranki Cycad JV (%)	50	–	–	–
Ceremele (%)	–	50	–	–
GFIP Contractors (%)	–	10	–	–
Sapref WBHO (%)	–	50	–	–
Steelpoort WBHO (%)	–	50	–	–
Potties SWC (%)	–	50	–	–
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	102 735	83 151	–	–
Current liabilities	13 465	4 500	–	–
Statement of comprehensive income				
Revenue	91 377	142 984	–	–
Cost of sales	(52 385)	(91 359)	–	–
Gross profit	38 992	51 625	–	–
Other operating expenses	–	(20)	–	–
Profit before taxation	38 992	51 605	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

31. 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	2012 Number of share options	2011 Number of share options
Opening balance at beginning of year	7 784 709	9 002 924
Granted during the year	–	–
Exercised during the year	(698 211)	(1 218 215)
Outstanding at end of year	7 086 498	7 784 709

	Group		Company	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Expense arising from share-based payment transaction	1 744	6 191	–	–
Weighted average share price for the year (cents)	161,5	253,3	161,5	253,3

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

	Basic salary R'000	Bonus R'000	Directors' base fee R'000	Directors' attendance fee R'000	Total R'000
32. Directors' emoluments					
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	–	–	–	–	–
A Brookstein*	–	–	–	–	–
From the company	–	–	364	352	716
Executive directors					
Esorfranki Construction					
B Krone	2 685	225	–	–	2 910
W van Houten	2 222	184	–	–	2 406
A Brookstein*	1 051	175	–	–	1 226
From subsidiaries	5 958	584	–	–	6 542
Total emoluments	5 958	584	364	352	7 258
2011					
Non-executive directors					
EG Dube	–	–	70	53	123
Dr FA Sonn	–	–	106	105	213
DM Thompson	–	–	111	111	222
B Mathabathe	–	–	36	27	65
Executive directors					
B Krone	–	–	–	–	–
W van Houten	–	–	–	–	–
From the company	–	–	232	296	619
Executive directors					
Franki					
B Krone	2 645	151	–	–	2 796
W van Houten	2 249	115	–	–	2 364
From subsidiaries	4 894	266	–	–	5 160
Total emoluments	4 894	266	323	296	5 779

* *Appointed 26 August 2011*

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 officer's remuneration is outlined on page 53.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

33. 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.

More than 80% 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 19.

The company has issued a financial guarantee contract in respect of a group company's secured borrowings and for which the maximum amount payable by the company, assuming all guarantees are called on, is R Nil million (2011: R326,0 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

33. 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 six million Esorfranki shares to Standard Bank. The Bank in turn advanced R6,8 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% (2011: 4,4%). 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 average capital of more than 15% (2011: 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

33. Risk management (continued)

Recognised in profit or loss

	Group		Company	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Finance income				
Interest income on bank deposits	1 204	2 207	–	–
Exchange gain on amounts owing to/from subsidiaries and foreign branches	48 344	21 367	–	–
Other	178	129	–	121
	49 726	23 703	–	121
Finance costs				
Interest expense on financial liabilities measured at amortised cost (other than bank overdrafts)	13 372	18 494	2	5
Interest expense on bank overdrafts	7 230	16 169	–	–
Exchange loss on amounts owing to/from subsidiaries and foreign branches	51 549	19 687	–	–
Other	1 082	21	–	–
	73 233	54 371	2	5
The above financial income and expense includes the following in respect of assets/(liabilities) not at fair value through profit or loss:	(19 398)	(32 456)	(2)	(5)
Total finance income on financial assets	1 204	2 207	–	–
Total finance expense on financial liabilities	(20 602)	(34 663)	(2)	(5)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
33. Risk management (continued)				
Credit risk				
The maximum exposure to credit risk at the reporting date was:				
Contract debtors	348 364	309 526	–	–
Retention debtors	116 065	75 642	–	–
Sundry debtors	60 801	28 600	–	124
Financial assets at fair value through profit or loss	5 164	–	–	–
Other investments	–	420	–	–
Unsecured intra-group loans	–	–	20 335	53 583
Cash and cash equivalents	96 653	63 138	22	56
	627 047	477 326	20 357	53 763
The maximum exposure to credit risk by geographical concentration for financial assets at the reporting date was:				
South Africa	464 701	425 339	20 357	53 763
Angola	42 141	17 731	–	–
Mozambique	28 957	11 012	–	–
Botswana	6 700	9 453	–	–
Mauritius	68 542	8 493	–	–
Tanzania	15 706	4 282	–	–
Other sub–Saharan countries	187	1 016	–	–
Common Monetary Area countries (Swaziland, Namibia)	113	–	–	–
	627 047	477 326	20 357	53 763
Impairment losses				
The ageing of trade receivables at the reporting date was:				
Not past due	446 866	357 641	–	–
Past due not impaired	17 563	27 527	–	–
Past due and impaired	49 723	34 987	–	–
	514 152	420 155	–	–
The movement in the allowance for impairment in respect of trade receivables during the year was as follows:				
Balance beginning of year	34 987	36 239	–	–
Impairment loss raised/(utilised)	14 736	(1 252)	–	–
Balance at 29 February	49 723	34 987	–	–

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 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Customer				
Eskom Holdings	40 550	–	–	–
Department of Transport	10 497	–	–	–
Sekhukhune Municipality	29 229	–	–	–
Bakwena Platinum Corridor Concessionaire (Pty) Limited	–	16 648	–	–
Bombela JV	–	10 906	–	–
SANRAL	–	10 779	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

33. Risk management (continued)

Impairment losses (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.

Liquidity risk

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

	Group		Company	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Non-derivative financial liabilities				
Secured borrowings				
Carrying amount	285 834	326 043	–	–
Contractual cash flows	320 968	345 514	–	–
One year or less	111 120	247 216	–	–
Two to five years	209 848	98 298	–	–
Trade and other payables				
Carrying amount	335 982	193 374	753	9 034
Contractual cash flows	335 982	193 374	753	9 034
One year or less	335 982	193 374	753	9 034
Two to five years	–	–	–	–
Other financial liabilities* (outside scope of IAS 39)				
Carrying amount	85 205	117 566	–	–
Contractual cash flows	85 205	117 566	–	–
One year or less	85 205	117 566	–	–
Unsecured loans				
Carrying amount	–	–	63 482	579
Contractual cash flows	–	–	63 482	579
One year or less	–	–	63 482	579
Two to five years	–	–	–	–
Total non-derivative financial liabilities				
Carrying amount	707 021	614 500	64 235	9 613
Contractual cash flows	742 155	633 971	64 235	9 613
One year or less	532 307	535 673	64 235	9 613
Two to five years	209 848	98 298	–	–

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

* *Other financial liabilities include retention creditors, advance payments received and employee benefit obligations*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

33. Risk management (continued)

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	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Gross exposure in the statement of financial position				
Cash and cash equivalents				
USD	16 149	6 207	–	–
GBP	–	1	–	–
BWP	1 986	4 383	–	–
MUR	–	188	–	–
Other	33 462	10 715	–	–
	51 597	21 494	–	–

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 Dollars
GBP	Great British Pounds
BWP	Botswana Pula
MUR	Mauritian Rupee
ZAR	South African Rand
Other	Mozambican Metical/Tanzanian Shillings/Nigerian Naira/Zambian Kwacha/Angolan Kwanza and Euro's

The following significant exchange rates applied during the year:

Group and company	2012 Average rate	2012 Spot rate	2011 Average rate	2011 Spot rate
Denomination				
Tanzanian Shillings	213,8387	210,6040	196,5634	212,2579
United States Dollar	7,3867	7,6595	7,2094	6,9513
Great British Pounds	11,7879	11,8993	11,1401	11,2229
Mauritian Rupee	3,8929	3,8741	4,2516	4,1909
Mozambican Metica	3,8600	3,6800	4,6800	4,4800
Botswana Pula	1,0627	1,0487	1,0672	1,0417

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

33. Risk management (continued)

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 2011. 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	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
Effect on profit for all currencies	**7 476**	4 820	**–**	–
Effect on profit/(loss) on significant currencies				
US Dollar	**(1 186)**	917	**–**	–
Tanzanian Shillings	**792**	1 079	**–**	–
Mozambican Metical	**(153)**	(404)	**–**	–
Botswana Pula	**522**	2 009	**–**	–
Mauritian Rupee	**1 304**	1 564	**–**	–
Effect on profit on significant currencies	**1 279**	5 165	**–**	–
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	**–**	–	**–**	–
	–	–	**–**	–
Variable rate instruments				
Financial assets	**96 653**	63 138	**22**	53 639
Financial liabilities	**(288 881)**	(326 043)	**–**	(579)
	(192 228)	(262 905)	**22**	53 060

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

33. Risk management (continued)

Interest rate risk

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 2011. A decrease in interest rates would have an equal but opposite effect on profit or loss.

	Group		Company	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Profit or loss				
Fixed rate instruments	–	–	–	–
Variable rate instruments	(1 384)	(1 893)	1	382
	(1 384)	(1 893)	1	382

Accounting classification and fair values

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 2012						
Financial assets						
Trade and other receivables	409 165	–	3 873	116 065	529 103	529 103
Cash and cash equivalents	96 653	–	–	–	96 653	96 653
Other	–	–	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

* *Outside the scope of IAS 39*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

33. Risk management (continued)

Accounting classification and fair values (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 2011						
Financial assets						
Trade and other receivables	227 308	–	–	157 860	385 168	385 168
Investments	420	–	–	–	420	420
Cash and cash equivalents	63 138	–	–	–	63 138	63 138
	290 866	–	–	157 860	448 726	448 726
Financial liabilities						
Non-current portion of secured borrowings	–	(84 516)	–	–	(84 516)	(84 516)
Trade and other payables	–	(193 374)	–	(117 566)	(310 940)	(310 940)
Current portion of secured borrowings	–	(241 527)	–	–	(241 527)	(241 527)
	–	(519 417)	–	(117 566)	(636 983)	(636 983)

* *Outside the scope of IAS 39*

	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 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*

	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 2011						
Financial assets						
Unsecured loans	53 583	–	–	–	53 583	53 583
Cash and cash equivalents	56	–	–	–	56	56
	53 639	–	–	–	53 639	53 639
Financial liabilities						
Trade and other payables	–	(9 034)	–	–	(9 034)	(9 034)
Unsecured loans	–	(579)	–	–	(579)	(579)
	–	(9 613)	–	–	(9 613)	(9 613)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

33. Risk management (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 t he 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.

34. 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	
		2012	2011	**2012**	2011
Party	Name of transaction	**R'000**	R'000	**R'000**	R'000
Esorfranki Pipelines (Pty) Limited	Dividends received	–	–	–	6 154

Transactions with jointly controlled operations have been disclosed in note 30. Directors' emoluments are disclosed in note 32.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

35. Investments in subsidiaries

	Share capital		Holding		Cost	
	2012 R	2011 R	2012 %	2011 %	2012 R'000	2011 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	8 909
Esorfranki Construction Limited 300 ordinary shares of R1 each at cost	300	300	100	100	546 378	192 280
Esorfranki Civils (Pty) Limited 100 ordinary shares of R1 each at cost	100	100	100	100	116 120	363 071
Esorfranki Pipelines (Pty) Limited 1 000 ordinary shares of R1 each at cost	1 000	1 000	100	100	4 787	107 715
					679 632	677 467

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.
2. IFRS3 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 38 for further information on subsidiary companies.

36. 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:

	2012		2011	
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	4 019	1 056	3 839	2 530
Vehicles	2 401	4 013	1 610	749
Office equipment	546	259	437	223
	6 966	5 328	5 886	3 502

Capital commitments

Group

At year-end, the purchase of plant and equipment to the value of R0,5 million (2011: R64,0 million) had been authorised and contracted for. Further capital expenditure to the value of R199 million (2011: R214,3 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

37. 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	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000	2012 R'000	2011 R'000	2012 R'000	2011 R'000	2012 R'000	2011 R'000
External revenue	723 475	684 989	820 396	512 439	227 821	169 005	–	–	1 771 692	1 366 433
Inter segment revenue	10 617	21 683	3 655	6 348	–	–	(14 272)	(28 031)	–	–
Segment revenue	734 092	706 672	824 051	518 787	227 821	169 005	(14 272)	(28 031)	1 771 692	1 366 433
Segment result										
Profit/(loss) before interest and taxation	50 253	18 747	25 376	(3 113)	2 234	(3 548)	(24 717)	(28 509)	53 146	(16 423)
Finance cost	(56 352)	(53 608)	(15 680)	(9 286)	(72)	(79)	(1 129)	8 602	(73 233)	(54 371)
Finance income	50 561	24 858	4 224	4 168	1 915	3 361	(6 974)	(8 684)	49 726	23 703
Taxation	(921)	7 773	(8 242)	(3 014)	(4 407)	(794)	2 147	2 365	(11 423)	6 330
Segment profit/(loss)	43 541	(2 230)	5 678	(11 245)	(330)	(1 060)	(30 673)	(26 226)	18 216	(40 761)
Segment assets	722 746	662 228	583 537	454 761	84 007	87 092	426 179	260 270	1 816 469	1 464 351
Segment liabilities	321 438	643 020	531 512	219 261	83 817	54 024	(57 730)	(155 109)	879 037	761 196
Capital and non-cash items										
Additions to property, plant and equipment	51 100	11 794	205 317	17 964	620	6 104	685	14 512	257 722	50 374
Depreciation	21 686	23 183	45 452	21 039	2 817	1 640	9 555	14 807	79 510	60 669
Impairment loss	–	1 624	–	–		–	–	1 200	–	2 824
Number of employees	1 191	1 287	1 820	1 453	373	434	18	10	3 402	3 184

Revenue generated from significant customers includes:

Customer	Business Unit	Revenue 2012	2011
Eskom – Kusile Power Station	Geotechnical and Civils	182 261	–
Rand Water	Pipelines	126 469	–
SANRAL	Civils	188 657	–
Bombela JV	Geotechnical	–	91 291
Bakwena Platinum Corridor Concessionaire (Pty) Limited	Civils	–	97 883
Xstrata	Civils	–	69 397

Geographical information	South Africa 2012 R'000	2011 R'000	Other regions 2012 R'000	2011 R'000	Consolidated 2012 R'000	2011 R'000
Total revenue from external customers	1 497 994	1 162 814	273 698	203 619	1 771 692	1 366 433
Property, plant and equipment	625 352	463 705	111 960	102 070	737 312	565 775

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 29 February

38. Interest in subsidiaries

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

	Country of incorporation	Nature of business	Percentage held 2012	2011
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 Pipelines (Pty) Limited*	South Africa	Pipelines	**100**	100
Esorfranki Construction (Pty) Limited*	South Africa	Geotechnical	**100**	100
Indirectly held				
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
Zimfranki Projects (PVT) Limited	Zimbabwe	Civil engineering, pipelines and geotechnical	**100**	100

** Further information on these subsidiaries can be found in note 34*

	Company 2012 R'000	2011 R'000
The profit/(loss) after taxation attributable to the subsidiaries		
Brookmay Properties (Pty) Limited	**(18)**	1
Esor Share Incentive Scheme	**(8 597)**	(1 080)
Esor Africa (Pty) Limited	**(2 146)**	(18 488)
Esorfranki Plant (Pty) Limited	**2 975**	–
Esorfranki Construction (Pty) Limited	**(4 457)**	18 145
Subsidiaries of Esorfranki Construction (Pty) Limited	**31 515**	29 390
Esorfranki Civils (Pty) Limited	**257**	(11 245)
Esorfranki Pipelines (Pty) Limited	**(238)**	(1 060)
	19 291	(20 770)
Aggregate profits	**34 747**	11 103
Aggregate losses	**(15 456)**	(31 873)
Loans to/(from) subsidiaries		
Esor Share Incentive Trust	**2 378**	15 912
Esor Africa (Pty) Limited	**17 957**	37 671
Esorfranki Construction (Pty) Limited	**(63 482)**	(579)
	(43 147)	53 004

39. 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 R62 million (2011: R31 million), being 10% of the award contract value. This guarantee is due to expire in May 2014.

A further parent company performance guarantee was issued in respect of the construction of a diaphragm wall by Esorfranki Geotechnical. The maximum exposure for this guarantee is R1,0 million. The guarantee is due to expire in October 2012.

ANALYSIS OF SHAREHOLDERS

Company: Esorfranki Limited
Register date: 24 February 2012
Issued share capital: 395 185 430

Shareholder spread	Number of shareholdings	%	Number of shares	%
1 – 1 000 shares	503	17,02	292 892	0,07
1 001 – 10 000 shares	1 477	49,97	6 820 295	1,73
10 001 – 100 000 shares	760	25,71	23 956 460	6,06
100 001 – 1 000 000 shares	148	5,01	49 499 224	12,53
1 000 001 shares and over	68	2,30	314 616 559	79,61
Totals	2 956	100,00	395 185 430	100,00

Distribution of shareholders				
Bank	6	0,20	807 268	0,20
Close corporations	56	1,89	2 716 980	0,69
Empowerment	2	0,07	17 312 250	4,38
Endowment funds	13	0,44	736 393	0,19
Individuals	2 342	79,23	98 896 881	25,03
Insurance company	11	0,37	20 902 175	5,29
Investment companies	7	0,24	4 258 204	1,08
Medical scheme	8	0,27	3 945 836	1,00
Mutual fund	47	1,59	134 881 583	34,13
Nominees and trusts	181	6,12	9 063 188	2,29
Other corporations	34	1,15	372 067	0,09
Private companies	63	2,13	31 657 564	8,01
Public company	2	0,07	49 800	0,01
Retail investor	128	4,33	7 932 113	2,01
Retirement fund	55	1,86	60 862 470	15,40
Share trust	1	0,03	790 658	0,20
Totals	2 956	100,00	395 185 430	100,00

Public/non-public shareholders				
Non-public shareholders	7	0,24	26 247 328	6,64
Directors and associates of the company holdings	5	0,17	24 502 302	6,20
Share trust	2	0,07	1 745 026	0,44
Public shareholders	2 949	99,76	368 938 102	93,36
Totals	2 956	100,00	395 185 430	100,00

ANALYSIS OF SHAREHOLDERS (CONTINUED)

Beneficial shareholders holding 3% or more	Number of shares	%
Sanlam	42 689 623	10,80
Coronation Fund Managers	35 149 830	8,89
Investec	17 214 615	4,36
Investment Solutions	16 679 722	4,22
Krone, B	13 509 394	3,42
Esor Broad Based Share Ownership Scheme	13 312 250	3,37
Eskom Pension and Provident Fund	12 035 067	3,05
Abax Investments	12 032 772	3,04
Transnet Pension Fund	12 008 606	3,04
Totals	**174 631 879**	**44,19**

Institutional Holding 3% or more		
Coronation Fund Managers	109 431 724	27,69
Sanlam Investment Management	44 314 506	11,21
Investec Asset Management	29 521 141	7,47
Abax Investments	14 587 214	3,69
Totals	**197 854 585**	**50,07**

GRI INDEX

Esorfranki is committed to the GRI G3.1 Sustainability Reporting Guidelines ("The G3.1 Guidelines"), which continues to provide a valuable framework for GE's citizenship reporting. Our 2010 citizenship reporting applies a self-declared GRI Application Level C.

G3	Indicator	Description	Page reference
Strategy	1.1	Statement from the most senior decision-maker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.	34
	1.2	Description of key impacts, risks, and opportunities.	8
Organisational profile	2.1	Name of the organisation	IBC
	2.2	Primary brands, products, and/or services indicating the nature of its role in providing these products and services and the degree to which it utilises outsourcing.	7
	2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures.	7
	2.4	Location of organisation's headquarters.	IBC
	2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	26
	2.6	Nature of ownership and legal form.	IBC
	2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries).	26
	2.8	Scale of the reporting organisation	2, 14 – 26, 40
	2.9	Significant changes during the reporting period regarding size, structure, or ownership including: • The location of, or changes in operations, including facility openings, closings and expansions; and • Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations).	14, 93
	2.10	Awards received in the reporting period.	Not applicable
Report parameters	3.1	Reporting period (e.g. fiscal/calendar year) for information provided.	65
	3.2	Date of most recent previous report (if any).	IFC
	3.3	Reporting cycle (annual, bi-annual, etc.).	IFC
	3.4	Contact point for questions regarding the report or its contents.	IBC
	3.5	Process for defining report content, including: • Determining materiality; • Prioritising topics within the report; and • Identifying stakeholders the organisation expects to use the report.	IFC
	3.6	Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	13, 26
	3.7	State any specific limitations on the scope or boundary of the report.	IFC

GRI INDEX (CONTINUED)

G3	Indicator	Description	Page reference
Report parameters (continued)	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations.	100
	3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	65
	3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement.	Not applicable
	3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report.	Not applicable
	3.12	GRI table.	118
	3.13	Policy and current practice with regard to seeking external assurance for the report.	45
Governance, commitments and engagements	4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	46
	4.2	Indicate whether the chairman of the highest governance body is also an executive officer and, if so, reasons for this arrangement.	47
	4.3	Number of independent and/or non-executive members.	47
	4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the board.	49
	4.5	Linkage between compensation for members of the highest governance body, senior managers and executives and the organisation's performance.	52
	4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	49, 51
	4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics.	51
	4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation.	6
	4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles.	53

GRI INDEX (CONTINUED)

G3	Indicator	Description	Page reference
Governance, commitments and engagements (continued)	4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	50
	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	43 – 45
	4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	53
	4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations	42
	4.14	List of stakeholder groups engaged by the organisation.	41
	4.15	Basis for identification and selection of stakeholders with whom to engage.	41
	4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	41
	4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	41
Disclosures on Management Approach	DMA EN	The disclosures on management approach for all environmental aspects reported on.	Not reported
	DMA HR	The disclosures on management approach relating to human rights reported on.	55
	DMA LA	The disclosures on management approach relating to labour practices and decent work reported on.	54 – 57
	DMA SO	The disclosures on management approach relating to society reported on.	56, 62
	DMA PR	The disclosures on management approach relate to individual aspects reported on: • PR1, PR2 – Product health and safety impacts; and • PR4, PR5, PR8 – Customer satisfaction and privacy of data and non-compliance with regulations.	56
	DMA EC	The disclosures on management approach relate to the individual aspects reported on, including: • EC1 – Direct economic value generated and distributed; • EC2 – Impacts of climate change; • EC6 – Spending on locally-based suppliers; • EC7 – Local hiring, including at senior management level; and • EC8, EC9 – Economic impacts.	40

GRI INDEX (CONTINUED)

G3	Indicator	Description	Page reference
Performance indicator: Environmental	EN1	Materials used by weight or volume.	Not applicable
	EN2	Percentage of materials used that are recycled input materials.	Not applicable
	EN3	Direct energy consumption by primary energy source.	Not reported
	EN4	Indirect energy consumption by primary source.	Not reported
	EN5	Energy saved due to conservation and efficiency improvements.	Not reported
	EN6	Initiatives to provide energy-efficient or renewable energy based products and services and reductions in energy requirements as a result of these initiatives.	Not reported
	EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Not reported
	EN8	Total water withdrawal by source.	Not reported
	EN9	Water sources significantly affected by withdrawal of water.	Not reported
	EN10	Percentage and total volume of water recycled and reused.	Not reported
	EN11	Location and size of land owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas.	Not reported
	EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	62
	EN13	Habitats protected or restored.	Not reported
	EN14	Strategies, current actions and future plans for managing impacts on biodiversity.	Not reported
	EN15	Number of IUCN red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not reported
	EN16	Total direct and indirect greenhouse gas emissions by weight.	Not reported
	EN17	Other relevant indirect greenhouse gas emissions by weight.	Not reported
	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Not reported
	EN19	Emissions of ozone-depleting substances by weight.	Not reported
	EN20	NO, SO, and other significant air emissions by type and weight.	Not reported
	EN21	Total water discharge by quality and destination.	Not reported
	EN22	Total weight of waste by type and disposal method.	Not reported
	EN23	Total number and volume of significant spills.	Not applicable
	EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Not reported
	EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and run-off.	Not applicable
	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	62

GRI INDEX (CONTINUED)

G3	Indicator	Description	Page reference
Performance indicator: Environmental (continued)	EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not reported
	EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	None
	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Not reported
	EN30	Total environmental protection expenditures and investments by type.	Not reported
Performance indicator: Human rights	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Not reported
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Not reported
	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	55
	HR4	Total number of incidents of discrimination and actions taken.	59
	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	None
	HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	Not applicable
	HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	Not applicable
	HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	Not reported
	HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	54
Performance indicator: Labour practices and decent work	LA1	Total workforce by employment type, employment contract and region.	54
	LA2	Total number and rate of employee turnover by age group, gender and region.	54
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	94
	LA4	Percentage of employees covered by collective bargaining agreements.	55
	LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	Not reported
	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	Not reported

GRI INDEX (CONTINUED)

G3	Indicator	Description	Page reference
Performance indicator: Labour practices and decent work (continued)	LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work related fatalities by region.	57
	LA8	Education, training, counselling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	57
	LA9	Health and safety topics covered in formal agreements with trade unions.	57
	LA10	Average hours of training per year per employee by employee category.	56
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	56
	LA12	Percentage of employees receiving regular performance and career development reviews.	Not reported
	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity.	60
	LA14	Ratio of basic salary of men to women by employee category.	Not reported
Performance indicator: Society	SO1	Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.	Not reported
	SO2	Percentage and total number of business units analysed for risks related to corruption.	Not reported
	SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Not reported
	SO4	Actions taken in response to incidents of corruption.	Not applicable
	SO5	Public policy positions and participation in public policy development and lobbying.	Not reported
	SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country.	Not applicable
	SO7	Total number of legal actions for anticompetitive behaviour, anti-trust and monopoly practices and their outcomes.	34
	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Not applicable
Performance indicator: Product Responsibility	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement and percentage of significant products and services categories subject to such procedures.	Not applicable
	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	none
	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Not applicable
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	Not applicable

GRI INDEX (CONTINUED)

G3	Indicator	Description	Page reference
Performance indicator: Product Responsibility (continued)	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Not applicable
	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	Not reported
	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes.	Not applicable
	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Not applicable
	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Not applicable
Performance indicator: Economic	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments.	40
	EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Not reported
	EC3	Coverage of the organisation's defined benefit plan obligations.	Not applicable
	EC4	Significant financial assistance received from government.	Not applicable
	EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Not reported
	EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation.	Not reported
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	Not reported
	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement.	Not reported
	EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	8 – 11

KING III CHECKLIST

Principle number	Description	Compliance
1.1	The board should provide effective leadership based on an ethical foundation	✔
1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen	✔
1.3	The board should ensure that the company's ethics are managed effectively	✔
2.1	The board should act as the focal point for and custodian of corporate governance	✔
2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable	✔
2.3	The board should provide effective leadership based on an ethical foundation	✔
2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen	✔
2.5	The board should ensure that the company's ethics are managed effectively	✔
2.6	The board should ensure that the company has an effective and independent audit committee	✔
2.7	The board should be responsible for the governance of risk	✔
2.8	The board should be responsible for information technology (IT) governance	✔
2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✔
2.10	The board should ensure that there is an effective risk-based internal audit	✔
2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation	✔
2.12	The board should ensure the integrity of the company's integrated report	✔
2.13	The board should report on the effectiveness of the company's system of internal controls	✔
2.14	The board and its directors should act in the best interests of the company	✔
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 Act	Not applicable
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	✔
2.17	The board should appoint the chief executive officer and establish a framework for the delegation of authority	✔
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	✔
2.19	Directors should be appointed through a formal process	✔
2.20	The induction of and ongoing training and development of directors should be conducted through formal processes	✗
2.21	The board should be assisted by a competent, suitably qualified and experienced company secretary	✔
2.22	The evaluation of the board` its committees and the individual directors should be performed every year	Partly
2.23	The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	✔
2.24	A governance framework should be agreed between the group and its subsidiary boards	✔
2.25	Companies should remunerate directors and executives fairly and responsibly	✔
2.26	Companies should disclose the remuneration of each individual director and certain senior executives	✔

KING III CHECKLIST (CONTINUED)

Principle number	Description	Compliance
2.27	Shareholders should approve the company's remuneration policy	✔
3.1	The board should ensure that the company has an effective and independent audit committee	✔
3.2	Audit committee members should be suitably skilled and experienced independent non-executive directors	✔
3.3	The audit committee should be chaired by an independent non-executive director	✔
3.4	The audit committee should oversee integrated reporting	✔
3.5	The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities	✔
3.6	The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function	✔
3.7	The audit committee should be responsible for overseeing of internal audit	✔
3.8	The audit committee should be an integral component of the risk management process	✔
3.9	The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	✔
3.10	The audit committee should report to the board and shareholders on how it has discharged its duties	✔
4.1	The board should be responsible for the governance of risk	✔
4.2	The board should determine the levels of risk tolerance	✔
4.3	The risk committee or audit committee should assist the board in carrying out its risk responsibilities	✔
4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan	✔
4.5	The board should ensure that risk assessments are performed on a continual basis	✔
4.6	The board should ensure that the frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	✔
4.7	The board should ensure that management considers and implements appropriate risk responses	✔
4.8	The board should ensure continual risk monitoring by the management	✔
4.9	The board should receive assurance regarding the effectiveness of the risk management process	✔
4.10	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	✔
5.1	The board should be responsible for information technology (IT) governance	✔
5.2	IT should be aligned with the performance and sustainability objectives of the company	✔
5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework	✔
5.4	The board should monitor and evaluate significant IT investments and expenditure	✔
5.5	IT should form an integral part of the company's risk management	✔
5.5	The board should ensure that information assets are managed effectively	✔
5.7	A risk committee and audit committee should assist the board in carrying out its IT responsibilities	✔

KING III CHECKLIST (CONTINUED)

Principle number	Description	Compliance
6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✔
6.2	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	✔
6.3	Compliance risk should form an integral part of the company's risk management process	✔
6.4	The board should delegate to management the implementation of an effective compliance framework and processes	✔
7.1	The board should ensure that there is an effective risk based internal audit	✔
7.2	Internal audit should follow a risk based approach to its plan	✔
7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management	✔
7.4	The audit committee should be responsible for overseeing internal audit	✔
7.5	Internal audit should be strategically positioned to achieve its objectives	✔
8.1	The board should appreciate that stakeholders perception affect a company's reputation	✔
8.2	The board should delegate to management to proactively deal with stakeholder relationships	✔
8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	✔
8.4	Companies should ensure the equitable treatment of shareholders	✔
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	✔
8.6	The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	✔
9.1	The board should ensure the integrity of the company's integrated report	✔
9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting	✔
9.3	Sustainability reporting and disclosure should be independently assured	Partly

DEFINITIONS

"BEE"	Black economic empowerment
"BCAWU"	Building Construction and Allied Workers Union
"the board"	The board of directors of Esorfranki Limited
"Brookmay"	Brookmay Properties (Pty) Limited
"CAPEX"	Capital expansion
"CIDB"	Construction Industry Development Board
"CEO"	Chief Executive Officer
"CFO"	Chief Financial Officer
"CIO"	Chief Information Officer
"the company" or "Esorfranki"	Esorfranki Limited
"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 Esorfranki Construction
"Esorfranki Construction"	Esorfranki Construction (Pty) Limited (formerly Franki Africa (Pty) Limited), the operating company of the group effective 1 March 2011, incorporating Esorfranki Geotechnical, Esorfranki Civils, Esorfranki Pipelines and shared services
"Esorfranki Pipelines"	A division of Esorfranki Construction
"Esorfranki Geotechnical"	A division of Esorfranki Construction
"EVA""	Economic Value Add
"FY"	Financial year
"GRI"	Global Reporting Initiative
"H1"	Period from 1 March to 31 August
"H2"	Period from 1 September to 28/29 February
"IFRS"	International Financial Reporting Standards
"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
"MOI"	Memorandum of Incorporation
"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 28 February 2011
"SAFCEC"	South African Federation of Civil Engineering Contractors
"SAICE"	South African Institution of Civil Engineering
"SENS"	Stock Exchange News Service
"STC"	Secondary tax on companies
"the year" or "the year under review"	The year ended 29 February 2012

NOTICE OF ANNUAL GENERAL MEETING

This notice of annual general meeting contains important information relating to the adoption of a new Memorandum of Incorporation.

If you are in any doubt as to what action to take in regard to this notice, please consult your Central Securities Depository Participant ("CSDP"), broker, banker, accountant, attorney or other professional adviser immediately and refer to the instructions set out at the conclusion of this notice.

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 shareholders of Esorfranki will be held at the offices of the company at 30 Activia Road, Activia Park, Germiston on 13 July 2012 at 10:00 to present the annual financial statements to shareholders and to consider and, if deemed appropriate, pass the ordinary and special resolutions listed below, with or without modification.

The record date in terms of section 59 of the Companies Act for shareholders to be recorded in the register in order to be able to attend, participate and vote at the annual general meeting is Friday, 6 July 2012.

PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

To present the consolidated audited annual financial statements of the company and its subsidiaries, incorporating the reports of the auditors, the Audit Committee and the directors for the year ended 29 February 2012.

ORDINARY RESOLUTIONS 1.1 TO 1.2: ROTATION OF DIRECTORS

1.1: It is **RESOLVED** that Dr FA Sonn be and is hereby reappointed as a non-executive director of the company.

1.2: It is **RESOLVED** that Mr EG Dube be and is hereby reappointed as a non-executive director of the company.

1.3: It is **RESOLVED** that AC Brookstein be and is hereby appointed as an executive director of the company.

ORDINARY RESOLUTIONS 2.1 TO 2.3: APPOINTMENT OF AUDIT COMMITTEE

2.1: It is **RESOLVED** that Dr FA Sonn be and is hereby appointed as a member of the Audit Committee of the company.

2.2: It is **RESOLVED** that Mr EG Dube be and is hereby appointed as a member of Audit Committee of the company.

2.3 It is **RESOLVED** that Mr DM Thompson be and is hereby appointed as a member of the Audit Committee of the company.

ORDINARY RESOLUTION 3: APPOINTMENT OF AUDITORS

It is **RESOLVED**, on recommendation of the Audit Committee, that KPMG Inc be and is hereby re-appointed as independent auditors of the company, the designated auditor meeting the requirements of section 90(2) of the Companies Act 71 of 2008.

ORDINARY RESOLUTION 4: AUTHORITY TO ISSUE SHARES

It is **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 5: 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

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

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 6: REMUNERATION PHILOSOPHY

It is **RESOLVED**, by way of a non-binding advisory vote, that the remuneration philosophy of the company as set out on page 52 of the integrated report be and is hereby approved.

SPECIAL RESOLUTION 1: DIRECTORS' REMUNERATION

It is **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 sections 66(8) and 66(9) of the Companies Act of 2008; and
- that the remuneration structure and amounts as set out below, be and are hereby approved until such time as rescinded or amended by shareholders by way of a special resolution:

Type of fee (per meeting)	Existing fee in R 2011	Proposed fee in R 2012
Board		
Chairman	37 800	**40 450**
Board member	18 900	**20 250**
Audit Committee		
Chairman	25 200	**26 950**
Member	12 600	**13 500**
Risk Committee		
Chairman	7 875	**8 430**
Member	5 250	**5 620**
Human Resources and Nominations Committee		
Chairman	15 750	**16 855**
Member	10 500	**11 235**
Social and Ethics Committee		
Member	–	**5 620**

SPECIAL RESOLUTION 2: GENERAL AUTHORITY TO REPURCHASE SHARES

"It is **RESOLVED**, as a special resolution, that the mandate given to the company in terms of its Memorandum of Incorporation ("MOI") (or one of its wholly-owned subsidiaries) providing authorisation, by way of a general approval, to acquire the company's own securities, upon such terms and conditions and in such amounts as the directors may from time to time decide, subject to the Listings Requirements of the JSE Limited ("the JSE"), the company's MOI and the Companies Act be extended, subject to the following:

- this general authority be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution (whichever period is shorter);
- the repurchase being effected through the order book operated by the JSE trading system, without any prior understanding or arrangement between the company and the counterparty;
- repurchases may not be made at a price greater than 10% (ten percent) above the weighted average of the market value of the ordinary shares for the 5 (five) business days immediately preceding the date on which the transaction was effected;
- an announcement being published as soon as the company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the initial number of ordinary shares, and for each 3% (three percent) in aggregate of the initial number of ordinary shares repurchased thereafter, containing full details of such repurchases;
- the number of ordinary shares which may be acquired pursuant to this authority in any one financial year may not in the aggregate exceed 20% (twenty percent) of the company's issued ordinary share capital as at the date of passing of this special resolution or 10% (ten percent) of the company's issued ordinary share capital in the case of an acquisition of shares in the company by a subsidiary of the company;
- the company's sponsor confirming the adequacy of the company's working capital for purposes of undertaking the repurchase of ordinary shares, in writing, to the JSE prior to the company entering the market to proceed with the repurchase;
- the company and/or its subsidiaries not repurchasing securities during a prohibited period as defined in the JSE Listings Requirements, unless it has in place a repurchase programme 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 published on SENS prior to the commencement of the prohibited period;
- at any point in time, the company only appointing one agent to effect any repurchases on its behalf; and
- the board of directors must pass a resolution that they authorised the repurchase and that the company passed the solvency and liquidity test set out in section 4 of the Companies Act of 2008, and that since the test was done there have been no material changes to the financial position of the group.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

The directors of the company and its subsidiaries will only utilise the general authority to purchase the company's securities to the extent that they, after considering the maximum repurchase permitted, are of the opinion that for a period of 12 (twelve) months after the date of the notice of the annual general meeting and at the actual date of the repurchase:

- the company and the group will be able, in the ordinary course of business, to pay its debts;
- the working capital of the company and the group will be adequate for ordinary business purposes;
- the assets of the company and the group, fairly valued in accordance with International Financial Reporting Standards, will exceed the liabilities of the company and the group; and
- the company's and the group's ordinary share capital and reserves will be adequate for ordinary business purposes, and 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 company and the group.

SPECIAL RESOLUTION 3: FINANCIAL ASSISTANCE TO RELATED AND INTER-RELATED COMPANIES

It is RESOLVED, by way of a special resolution, that the directors of the company be and are hereby authorised to provide financial assistance to all related and inter-related companies within the Esorfranki group of companies, at such times and on such terms and conditions as the directors in their sole discretion deem fit and subject to all relevant statutory and regulatory requirements being met, such authority to remain in place until rescinded by way of special resolution passed at a duly constituted annual general meeting of the company.

SPECIAL RESOLUTION 4: ADOPTION OF MEMORANDUM OF INCORPORATION

It is RESOLVED, by way of a special resolution, that a new Memorandum of Incorporation ("MOI"), as detailed in the salient features thereof attached to this notice of annual general meeting as Appendix 1, the complete MOI having been available for inspection at the company's registered office from the date of notice of this annual general meeting until the date of this annual general meeting, which MOI will supersede the current Memorandum and Articles of Association of the company, the complete MOI having been initialled by the chairman of this meeting for identification purposes and tabled at this meeting, be and is hereby ratified and approved.

ORDINARY RESOLUTION 7: SIGNING AUTHORITY

To authorise any one director or the secretary of the company to do all such things and sign all such documents as are deemed necessary to implement the resolutions set out in the notice convening the annual general meeting at which this ordinary resolution will be considered and approved at such meeting.

Additional information

The following additional information, some of which may appear elsewhere in the integrated report, is provided in terms of the JSE Listings Requirements for purposes of the general authority to repurchase the company's shares set out in special resolution 2 above :

- directors and management – pages 28 to 30;
- major shareholders – page 117;
- directors' interests in ordinary shares – page 69; and
- share capital of the company – page 93.

Litigation statement

The directors in office, whose names appear on pages 28 and 29 of the integrated report, are not aware of any legal or arbitration proceedings, including any proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months from the date of this integrated report, a material effect on the group's financial position.

Directors' responsibility statement

The directors in office, whose names appear on pages 28 and 29 of the integrated report, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution 2 and certify that, to the best of their knowledge and belief, there are no facts that have been omitted, which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required by the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in the integrated report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the company's financial year-end and the date of signature of the integrated report.

Directors' intention regarding the general authority to repurchase the company's shares

The directors have no specific intention, at present, for the company to repurchase any of its shares, but consider that such a general authority should be put in place should an opportunity present itself to do so during the year which is in the best interests of the company and its shareholders.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

PROXIES

Any shareholder holding shares in certificated form or recorded on the company's sub-register in electronic dematerialised form in "own name" and entitled to attend, speak and vote at the meeting is entitled to appoint a proxy to attend, speak and on a poll vote in his stead. A proxy need not be a member of the company.

Proxy forms must be lodged at the offices of the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited (70 Marshall Street, Corner Sauer Street, Johannesburg; PO Box 61051, Marshalltown, 2107), by no later than 10h00 on Wednesday, 11 July 2012 or they may be handed to the chairperson of the annual general meeting at any time prior to the commencement of voting on the ordinary and special resolutions tabled at the annual general meeting.

All beneficial owners whose shares have been dematerialised through a CSDP or broker, other than with "own name" registration, must provide the CSDP or broker with their voting instructions in terms of their custody agreement should they wish to vote at the annual general meeting. Alternatively, they may request the CSDP or broker to provide them with a letter of representation in terms of their custody agreements should they wish to attend the annual general meeting.

Shareholders and proxies of shareholders are advised that they will be required to present reasonably satisfactory identification in order to attend or participate in the annual general meeting as required in terms of section 63(1) of the Companies Act of 2008.

VOTING THRESHOLDS

Ordinary resolution 1 to 4 and 6 are subject to a simple majority of votes.

In terms of the JSE Listings Requirements, the approval of a 75% majority of votes of all shareholders, present or represented by proxy, is required to approve ordinary resolution 5.

The special resolutions must be supported by 75% or more of the voting rights exercised.

VOTING

In terms of the JSE Listings Requirements, any shares held by the Esorfranki Share Incentive Scheme will not have its votes at the annual general meeting taken into account in determining the results of voting on ordinary resolution 5 and special resolution 2.

By order of the board

Annamarie van der Merwe
For: iThemba Governance and Statutory Solutions (Pty) Limited
Company Secretary

Germiston
24 May 2012

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

ANNUAL GENERAL MEETING – EXPLANATORY NOTES AND SALIENT DATES

Presentation of annual financial statements

At the annual general meeting, the directors must present the annual financial statements for the year ended 29 February 2012 to shareholders together with the reports of the directors, the audit and risk committee and the auditors. These are in the integrated report.

Ordinary resolutions 1.1 to 1.3 – Rotation of directors

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

The purpose of these resolutions is to elect, by way of separate resolutions, directors in the place of those retiring in accordance with the company's Memorandum of Incorporation. The directors retiring are FA Sonn and EG Dube, both of whom being eligible offer themselves for reelection. In addition, AC Brookstein, having been appointed as a director subsequent to the previous Annual General Meeting, and being eligible, offers himself for election by shareholders.

Brief biographical details of each of the above directors and the remaining members of the board are contained on pages 28 and 29 of the integrated report of which this notice forms part.

Ordinary resolutions 2.1 to 2.3 – Appointment of Audit Committee

In terms of section 94(2) of the Companies Act 71 of 2008 ("the Act"), a public company must at each annual general meeting elect an audit committee comprising at least three members who are directors and who meet the criteria of section 94(4) of the Act. Regulation 42 to the 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 requirements. Contrary to the recommendation contained in King III that the chairman of the board should not be a member of an audit committee, the current composition of the board requires the chairman of the board to also be a member of the Audit Committee in order to meet the statutory requirements for the composition of an audit committee appointed in terms of the Companies Act.

The purpose of these resolutions is to appoint, by way of separate resolutions, the following independent non-executive directors as members of the Audit Committee:

- FA Sonn
- EG Dube
- DM Thompson

Ordinary resolution 3 – Appointment of auditors

KPMG Inc has indicated its willingness to continue in office and resolution 3 proposes the reappointment of that firm as the company's auditors with effect from 1 March 2012. Section 90(3) of the Companies Act 71 of 2008 ("the Act") requires the designated auditor to meet the criteria as set out in section 90(2) of the Act.

The board of directors of the company is satisfied that both KPMG and the designated auditor meet all relevant requirements.

Ordinary resolutions 4 and 5 – 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 fit, 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 5 to become effective.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

Ordinary resolution 6 – Remuneration philosophy

The King Report on Corporate Governance for South Africa, 2009, 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.

Special resolution 1 – Directors' remuneration

In terms of sections 66(8) and s66(9) of the Companies Act 71 of 2008, companies 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 2 – General authority to repurchase shares

Section 48 of the Companies Act 71 of 2008 ("the 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 46 having been met. In order to ensure compliance with the requirements of the Act, the Listings Requirements of the JSE Limited and the provisions of the Memorandum of Incorporation of the company, a special resolution is proposed to provide authority to the company to repurchase its shares.

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

Section 45(2) of the Companies Act 71 of 2008 ("the Act") authorises the board to provide direct or indirect financial assistance to a related or inter-related company, subject to subsections (3) and (4) of section 45 of the Act and unless otherwise provided in the company's Memorandum of Incorporation. In terms of section 45(3) of the 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.

Special resolution 4 – Adoption of Memorandum of Incorporation

Following the implementation of the Companies Act 71 of 2008 ("the Act") on 1 May 2011, companies were afforded a two-year period within which to align the provisions of its Memorandum of Incorporation with the provisions of the Act. The new Memorandum of Incorporation, the salient features of which are set out on pages 136 to 138 of the integrated report, has been aligned with the provisions of the Act while also complying with the Listings Requirements of the JSE.

Ordinary resolution 7 – 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 director be authorised accordingly.

General

Shareholders and proxies attending the annual general meeting on behalf of shareholders are reminded that section 63(1) of the Companies Act 71 of 2008 requires that reasonably satisfactory identification be presented in order for such shareholder or proxy to be allowed to attend or participate in the meeting.

Salient dates

Last day to trade to be eligible to vote at the annual general meeting	Friday, 29 June 2012
Record date for determining those shareholders entitled to vote at the annual general meeting	Friday, 6 July 2012

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

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.

MEMORANDUM OF INCORPORATION: SALIENT FEATURES

The notice of the annual general meeting as contained in this integrated report includes a special resolution for the approval of a new Memorandum of Incorporation for the company by shareholders.

A copy of the complete Memorandum of Incorporation is available for inspection at the company's registered office, 30 Activia Road, Activia Park, Germiston, from the date of the notice of the annual general meeting (i.e. 28 May 2012) until 13 July 2012, the date of the annual general meeting.

The **salient features** of the Memorandum of Incorporation are set out below. Any reference to "the Act" means the Companies Act, 71 of 2008.

Unissued securities

Unissued equity securities shall be offered to existing shareholders, pro rata to their shareholdings, unless such securities are to be issued for an acquisition of assets. However, the shareholders in 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 deem fit, provided that such corporate action(s) has/have been approved by the JSE and are subject to the Listings Requirements.

Transferability of securities and transfer of securities

(a) Securities for which listing is sought must be fully paid up and freely transferable, unless otherwise required by statute.

(b) All authorities to sign transfer deeds granted by holders of securities for the purpose of transferring securities that may be lodged, produced or exhibited with or to the company at any of its transfer offices shall, as between the company and the grantor of such authorities, be taken and deemed to continue and remain in full force and effect, and the company may allow the same to be acted upon until such time as express notice in writing of the revocation of the same shall have been given and lodged at the company's transfer offices at which the authority was lodged, produced or exhibited. Even after the giving and lodging of such notices, the company shall be entitled to give effect to any instruments signed under the authority to sign, and certified by any officer of the company, as being in order before the giving and lodging of such notice.

Ratification of ultra vires acts

The proposal of any resolution to shareholders in terms of Sections 20(2) and 20(6) of the Act is prohibited in the event that such a resolution would lead to the ratification of an Act that is contrary to the Listings Requirements; unless otherwise agreed with the JSE.

Rules

The directors' power to make, amend or appeal rules as contemplated in Section 15(3) of the Act is prohibited.

Preferences, rights, limitations and other share terms

(a) Securities in each class for which listing is applied rank *pari passu* in respect of all rights.

(b) In the event of voting by poll, every holder of an ordinary share has one vote in respect of each share that he holds.

(c) The holders of securities, other than ordinary shares and any special shares created for the purposes of black economic empowerment in terms of the BEE Act and BEE Codes, are not entitled to vote on any resolution taken by the company, save for as permitted by the JSE Listings Requirements. In instances that such shareholders are permitted to vote at general/annual general meetings, their votes do not carry any special rights or privileges and they are entitled to one vote for each share that they hold, provided that their total voting right at such a general/annual general meeting may not exceed 24,99% of the total voting rights of all shareholders at such meeting.

(d) Any amendment to the MOI must be approved by a special resolution of ordinary shareholders, save where such an amendment is ordered by a court in terms of Sections 16(1)(a) and 16(4) of the Act.

(e) If any amendment relates to the variation of any preferences, rights, limitations and other terms attaching to any other class of shares already in issue, that amendment will not be implemented without a special resolution, taken by the holders of shares in that class at a separate meeting. In such instances, the holders of such shares will be allowed to vote at the meeting of ordinary shareholders subject to the JSE Listings Requirements. No resolution of shareholders of the company shall be proposed or passed, unless a special resolution, of the holders of the shares in that class, have approved the amendment.

(f) Preferences, rights, limitations or other terms of any class of shares of a listed company must not be varied and no resolution may be proposed to shareholders for rights to include such variation in response to any objectively ascertainable external fact or facts as provided for in Sections 37(6) and 37(7) of the Act.

MEMORANDUM OF INCORPORATION: SALIENT FEATURES (CONTINUED)

Capitalisation issues
Any capitalisation issue by the company shall at least be subject to the fulfilment of the requirements set out in Section 47 of the Act.

Scrip dividend and cash dividend elections
The grant of the right of election is not prohibited.

Payments to securities holders
Payments to securities holders are provided for in accordance with the JSE Listings Requirements and capital shall not be repaid upon the basis that it may be called up again.

Other corporate actions
The following corporate actions are provided for, in accordance with the JSE Listings Requirements:

(a) Issue of shares for cash and options and convertible securities granted/issued for cash;

(b) Repurchase of securities; and

(c) Alteration of share capital, authorised shares and rights attaching to a class/es of shares.

Debt instruments
The granting of special privileges to holders of debt instruments, such as attending and voting at general meetings and the appointment of directors, are prohibited.

Resolutions and meetings
(a) Notice periods are as provided for in section 62(1) of the Act. The passing of a special resolution is subject to the approval of at least 75% of the votes cast by all equity securities holders present in person, or represented by proxy, at the general meeting/annual general meeting convened to approve such resolution.

(b) All shareholder meetings convened in terms of the JSE Listings Requirements shall be held "in person" and not by means of a written resolution as is contemplated in section 60 of the Act.

(c) There is no prohibition or restriction on the company from calling any meeting for the purposes of adhering to the JSE Listings Requirements.

(d) Notices of general/annual general meetings are to be delivered to each shareholder entitled to vote at such meeting and who has elected to receive such documents.

(e) Provision is made for delivering notices of meetings to the JSE at the same time as notices are sent to shareholders and must also be announced through SENS.

(f) The quorum at a general meeting is at least three shareholders entitled to attend and vote thereat. In addition, the quorum requirements provided for in Section 64(1) of the Act will be 25% in respect of the meeting. Once a quorum has been established, all the shareholders of the quorum must be present at the meeting to hear any matter that must be considered at the meeting.

Lien upon securities
The company has no power to claim a lien on securities.

Commission
The company may not pay commission exceeding 10% to any person in consideration for their subscribing or agreeing to subscribe, whether absolutely or conditionally, for any securities of the company.

Record date
The record date for all transactions is as set out in the JSE Listings Requirements.

Directors
(a) The minimum number of directors is four.

(b) The board may appoint directors as an addition to the board or to fill a casual vacancy. (c) The appointment of all directors is subject to shareholder approval at any general/annual general meeting. Provision is made for the appointment of alternate directors.

MEMORANDUM OF INCORPORATION: SALIENT FEATURES (CONTINUED)

(d) Should the number of directors fall below the minimum provided in the MOI, the remaining directors must, as soon as possible, and, in any event, not later than three months from the date that the number of directors falls below the minimum, fill the vacancies or call a general meeting for the purpose of filling the vacancies. A failure by the company to have the minimum number of directors during the three-month period does not limit or negate the authority of the board of directors or invalidate anything done by the board of directors or the company. After the expiry of the three-month period, the remaining directors shall only be permitted to act for the purpose of filling vacancies or calling general meetings of shareholders.

(e) A director may be employed in any other capacity in the company or as a director or employee of a company controlled by, or itself a major subsidiary of, the company and, in such event, his appointment and remuneration in respect of such other office shall be determined by a disinterested quorum of directors.

(f) The directors may be paid all their travelling and other expenses, properly and necessarily incurred by them in and about the business of the company, and in attending meetings of the directors or of committees thereof; and, if any director is required to perform extra services, to reside abroad or be specifically occupied about the company's business, he may be entitled to receive such remuneration as is determined by a disinterested quorum of directors, which may be either in addition to or in substitution for any other remuneration payable.

(g) At least one-third of non-executive directors must retire at the company's annual general meeting (or other general meeting held on an annual basis), provided the meeting is not conducted in terms of section 60 of the Act. These retiring members of the board of directors may be re-elected, provided they are eligible. The board of directors, through the nomination committee, should recommend eligibility, taking into account past performance and contribution made.

(h) The notice period to be allowed before the date of a general meeting/annual general meeting convened for the nomination of a new director must be such as to give sufficient time, after the receipt of the notice, for nominations to reach the company's office from any part of the Republic of South Africa. Directors may be elected at a general meeting provided the meeting is not conducted in terms of section 60 of the Act.

(i) The directors shall be entitled to elect a chairman, deputy chairman and/or any vice-chairman and to determine the period for which they, respectively, shall hold office. Where the quorum of directors is two, the chairman shall not be permitted to have a casting vote if only two directors are present at a meeting of directors.

(j) A decision that could be voted on at a meeting of the board of directors of a company may, instead, be adopted by written consent of a majority of the directors, given in person or by electronic communication, provided that each director has received notice of the matter to be decided. Such resolution, inserted in the minute book, shall be as valid and effective as if it had been passed at a meeting of directors. Any such resolution may consist of several documents and shall be deemed to have been passed on the date on which it was signed by the last director who signed it (unless a statement to the contrary is made in that resolution).

(k) Life directorships and directorships for an indefinite period are not permissible.

(l) The board has the power to exercise all of the powers and perform any of the functions of the company, as set out in section 66(1) of the Act and the powers of the board in this regard are not limited or restricted unless otherwise provided in the Memorandum of Incorporation.

Dividends

(a) The company in general meeting or the directors may declare dividends. However, the company in general meeting is not able to declare a larger dividend than that declared by the directors.

(b) Dividends are to be payable to shareholders registered as at a date subsequent to the date of declaration or date of confirmation of the dividend, whichever is the later.

(c) The company must hold all monies due to shareholders in trust indefinitely, but subject to the laws of prescription. Notwithstanding the aforegoing, unclaimed dividends may be forfeited for the benefit of the company after a period of three years if so resolved by the board.

Annual financial statements

A copy of the annual financial statements must be distributed to shareholders at least 15 business days before the date of the annual general meeting at which they will be considered.

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 13 July 2012 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)

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 ______________________________

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 thereof, which will be held for the purpose of considering and, if deemed fit, of passing, with or without modification, the ordinary and special 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
Ordinary resolution 1.1: Re-election of Dr FA Sonn as director			
Ordinary resolution 1.2: Re-election of Mr EG Dube as director			
Ordinary resolution 1.3: Election of AC Brookstein as an executive director			
Ordinary resolution 2.1: Re-election of Dr FA Sonn as a member of the Audit Committee			
Ordinary resolution 2.2: Re-election of Mr EG Dube as a member of the Audit Committee			
Ordinary resolution 2.3: Re-election of Mr DM Thompson as a member of the Audit Committee			
Ordinary resolution 3: Re-appointment of KPMG Inc as external auditor			
Ordinary resolution 4: Authority to issue unissued shares			
Ordinary resolution 5: Authority to issue unissued shares for cash			
Ordinary resolution 6: Sanctioning of the remuneration philosophy			
Special resolution 1: Authorisation for the company to pay its directors' remuneration			
Special resolution 2: Authority to repurchase company equities			
Special resolution 3: Authority to provide financial assistance to related and inter-related companies			
Special resolution 4: Adoption of memorandum of incorporation			
Ordinary resolution 7: Authority to effect the resolutions			

Signature ______________ signed at ______________ on ______________ 2012

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 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 fit 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 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.

CORPORATE INFORMATION

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Registration number: 1994/000732/06
JSE code: ESR
ISIN: ZAE000133369

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