

ESOR WRAPS UP PROBLEM CONTRACTS TO FORGE AHEAD

JSE civils and construction group Esor improved performance for the six months to August 2014 (“the period”) from the preceding six months as promised to investors. Esor resolved and concluded problem contracts which had previously beset the group, weighing on earnings, and upped cash generation. The group is on track for a sustained recovery with a secured two-year order book of R2.4 billion and an imminent project pipeline of around R500 million.

Operations generated R38,7 million in cash, up from a consumption of R21,2 million at the same time last year and more than doubling the cash balance at period-end. Revenue was impacted by planned group consolidation initiatives, and reduced by 22,2% to R789,8 million. Earnings were down 61,1% to a loss of R24 million, which translated to a headline loss per share of 6,59 cents compared to headline earnings of 0,01 cents at August 2013.

Group Chair Bernie Krone says he is pleased to finally see the light ahead after a protracted period of challenges for the group.

CEO Wessel Van Zyl explains that the successful resolution in the period of challenges facing *Esor Civils* means the division is now positioned for a turnaround. “The beleaguered Bakwena N4 contract incurred a further R50 million loss primarily resulting from late completion due in part to late changes to the scope of works and the spillover from labour unrest at nearby Marikana mine. However, the road is now open and we have certification of completion.” He adds that prudent provisions have been made for associated costs. Eskom’s claims on the Kusile project have also now been finalised. “Most importantly, more than R150 million of advance payments have been repaid. This eliminated the balance sheet risk associated with these advance payments.” Esor has agreed new contact terms for the remainder of this project.

General environmental delays on the Diepsloot development and the cancellation of the Gauteng school projects further pressured the division in the period. *Esor Civils* has a secured two-year order book of R1 billion.

Esor Pipelines’ revenue was temporarily stalled by protracted start-up on the Northern and Western Aqueduct projects and delayed contract awards. Van Zyl says Esor should start to benefit shortly once these are ironed out, with the value of work on the Western Aqueduct increased compared to the initial award in 2011, which was subject to a court dispute. Although profitability was down compared to this time last year (when the group realised several cash claims), it improved 9,4% on the six months ended February 2014 as a result of major works secured in KwaZulu-Natal.

Van Zyl is positive about the period ahead for *Esor Developments* which is set to benefit from the recent joint venture agreement with Calgro M3. “In line with strategy of partnering with industry leaders with complementary skills we have established a joint venture with Calgro M3 on the Diepsloot East integrated residential development. We believe that the combination of CalgroM3’s development skills and our construction expertise will bode well for the successful implementation of this

large and complex project.” The young division has a R700 million two-year order book.

Looking ahead he says profitable growth is on the horizon. “The consolidation and streamlining of support services within the group is nearing an end and the group will start reaping the benefits of improved systems and reporting.” He concludes that while operational challenges will continue in the ordinary course of work - such as environmental and client delays on contracts - the major obstacles to growth have been removed.

Van Zyl, the incumbent CFO of the group, took over as CEO when the long-planned board restructuring ultimately took place. Effective 1 September Krone was appointed non-executive Chairman and Oswald Franks stepped in as Lead Independent. In October serving group financial manager, Bruce Atkinson, was appointed CFO. The independent component of the board was also shuffled following planned retirements and new appointments.

Esor shares closed yesterday at R0.22

Ends.

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