

Integrated report
2018



Vision

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

Core values

Our values in action

We strictly enforce our Code of Ethics and had no reported incidents of violation in the year.

We have maintained our B-BBEE Level 3 accreditation and invest in continuous improvement, specifically in enterprise and supplier development.

Enterprise and supplier development spend of over R300 000 with other forms of assistance such as practical training, mentorship and working capital support.

CSI initiatives have been successfully implemented in the communities in which we operate.

Our skills development programme is ongoing.

Training and bursary spend of R6 million.

ISO 9001, 14001 and 18001 accreditations have been renewed and we are in the process of consolidating operating manuals to streamline these systems.



Standardised reporting systems focus on continually assessing and revising contracting practices to mitigate contract losses.

Seasoned management teams lead the operations.

Our employee culture has been effectively revitalised and employment equity practices are continually improving.

We operate as a single construction and developments company with a centralised shared service centre.

Contents

	2 Scope and boundary
	4 FY18 highlights
	5 Chairman and CEO's report
ESOR OVERVIEW	12 Milestones
	14 Esor at a glance
	15 Our market in context
	16 Directorate and executive management
OUR STRATEGY	19 Our strategic scorecard
	20 Our business model
	22 Our material issues and risks
OUR PERFORMANCE	25 CFO's report
	28 Five-year review
	30 Value added statement
OUR IMPACTS	32 Social and relationship capital
	36 Human capital
	41 Natural capital
GOVERNANCE	46 Corporate governance
	51 Risk report
	54 Remuneration report
	63 Social and ethics committee report
GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS	65 Directors' responsibility statement
	66 Declaration by company secretary
	67 Audit and risk committee report
	71 Directors' report
	74 Independent auditor's report
	79 Statements of financial position
	80 Statements of profit or loss and other comprehensive income
	81 Statements of changes in equity
	83 Statements of cash flow
	84 Accounting policies
	98 Notes to the financial statements
SHAREHOLDER INFORMATION	135 Analysis of shareholders
	136 Shareholders' diary
	137 Notice of annual general meeting
	149 Form of proxy
	150 Notes to the form of proxy
	151 Definitions
	IBC Contact details

Scope and boundary

This is our seventh integrated annual report and records the year ended 28 February 2018. In this report we aim to explain our strategy, the key opportunities and risks in our markets, our financial and non-financial performance and our expectations for the year ahead.

We focus on material sustainability issues, which we determine through board discussion, market research, engagement with our stakeholders, continuous risk assessments and review of prevailing trends in our industry and the global economy. The issues we have identified as material in terms of the impact on Esor's long-term sustainability include:

- Liquidity
- Project execution
- Securing work/order book
- Procurement and supplier relationships
- Reputation
- SHEQ
- Earnings growth
- Skills shortage
- Communities
- Insufficient diversity
- Cross-border trading

Sustainability issues that are not considered material to our business are not discussed in this report.

Scope of this report

The report presents the annual financial results and the economic, environmental, social and governance performance of the group for the year 1 March 2017 to 28 February 2018, and follows our report for the previous

year published in May 2017. Content encompasses all divisions and subsidiaries of the company, across all regions of operation in South Africa, Botswana, Swaziland and Zimbabwe.

The group reports in two core segments: Esor Construction and Esor Developments (see group structure on page 14).

Reporting approach

The report is targeted primarily at current stakeholders and potential investors in the group. In compiling the report we were guided by international and South African reporting guidelines and best practice, and South African legislation including the Companies Act, JSE Listings Requirements, IFRS, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, King IV and the International Integrated Reporting Framework issued in December 2013. The group has adopted the principles of King IV. The King IV application register for the group as required by the amendments to the JSE Listings Requirements effective 19 June 2017 can be accessed on our website www.esor.co.za.

The sustainability information has been compiled with reference to the GRI G4 guidelines.

We undertake the following assurance to ensure reporting integrity:

Business process	Nature of assurance	Status	Assurance provider	Scope and extent
Operational/financial risk				
Value of construction works secured (to be executed as at 28 February 2018)	Secured order book confirmed	Reviewed	KPMG Inc.	Limited review
Extent of construction contract profitability	Contract profit or loss ratio	Reviewed	KPMG Inc.	Full scope audit
Fair presentation of financial position of the group and company	External audit report	Assured	KPMG Inc.	Full scope audit
Internal audit	Quality review	Assured	3KC Enterprises and Consulting (Pty) Limited	Agreed scope audit

Business process	Nature of assurance	Status	Assurance provider	Scope and extent
Empowerment				
Employment equity process	EE report	Reviewed	Department of Labour	Legislative – full review
B-BBEE	B-BBEE scorecard	Assured	BEE Verification Agency cc	Legislative – full review
Quality				
ISO 9001	External audit	Assured	ISOQAR	Full scope
Environment				
ISO 14001	External audit	Assured	ISOQAR	Full scope
Safety				
ISO 18001	External audit	Assured	ISOQAR	Full scope

Forward-looking statements

The report contains forward-looking statements that, unless otherwise indicated, reflect the company's expectations as at 28 February 2018. 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, save as required to do so by legislation and/or regulation. The group's external auditors and/or assurance providers have not assured these statements.

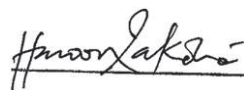


Wessel van Zyl
CEO

Responsibility statement and review

The board, with the assistance of the audit and risk committee, ensures that reports are issued as is necessary to comply with legal requirements and/or to meet the legitimate and reasonable information needs of material stakeholders. The integrity of all reporting is ensured with the assistance of relevant internal and external role-players forming part of the integrated assurance process.

The audit and risk committee and the board acknowledge their responsibility to ensure the integrity of this report. It has been reviewed by the audit and risk committee, the board, company secretary, sponsor and investor relations consultants. The financial statements included in this integrated report have been audited by the external auditors.



Haroon Takolia
Chair audit and risk committee

FY18 highlights



- Challenging local operating environment

- Non-RSA revenue increasing

- Cash constraints negatively impacting operations

- Medium-term liquidity constraints relief

- LTIFR further improved to 0,15

- Three Aqueduct projects imminent finalisation

- Successful professional indemnity insurance claim at Northern Aqueduct

Chairman and CEO's report



Bernie Krone Chairman

Wessel Van Zyl CEO

It has been yet another challenging year impacted by our external environment and some not insignificant shifts in the market in which we operate.

Strategy and our operating environment

Three years ago, we refined our strategy to focus on water infrastructure as this is where we identified a large demand in the southern African market, to quote "The next world war will be fought over water". The strategy remains to this day. At that time the construction and building industry was starting to contract and the industry has since become extremely competitive, with participants fighting for an ever-reducing share of the cake. Our business contribution is now approximately 50% water, 35% infrastructure with the balance in the niche geotechnical and trenchless rehabilitation sector.

Our gradual move away from the pure civil and building-related construction market was also in anticipation of the shifts within that industry. It is a cyclical industry and the benefits of 2010 are long gone. Added to that we have seen the disinvestment of the larger construction companies. Murray and Roberts has sold its main construction business; Aveng has announced plans to dispose of Grinaker-LTA; Group 5 has stated that they are severely cutting construction activity and eventually selling

Our business contribution is now approximately 50% water, 35% infrastructure with the balance in the niche geotechnical and trenchless rehabilitation sector.

”

Chairman and CEO's report (continued)

the majority stake in the construction business; Basil Read applied for business rescue on 15 June 2018, while Stefanutti Stocks has restructured significantly. Recent Competition Commission Act amendments ushered in constraints on larger construction companies.

Our shift to water was not only driven by our identification of a gap in this market but government's acknowledgment and pledge to invest in major water infrastructure. However, this has proven to be a challenging environment in which to operate and many factors have negatively impacted results. Government's commitment to water infrastructure has not been backed by action, with severe delays in implementing central government policy and large-scale infrastructure projects such as the raising of Clanwilliam dam wall and the design and construct of the bulk raw water project in Limpopo, Olifants River Phase 2D, not proceeding as planned. Further, implementation down the line from municipalities to water boards has seen numerous contract cancellations and award delays. This implementation failure was further evident in the Cape Town water crisis whereby a number of desalination bids were advertised, for which Esor also submitted bids, yet not all of these were awarded at the time. In this case yet again implementation failure at all levels, from central and provincial government, to municipalities and water boards, was a factor.

Operating in this environment has translated into the sub-optimal returns reflected in our results. Alongside contract delays, non-awards and failure to implement stated policy, we have also experienced an increase in unjust tender awards which are then challenged in court. This lengthy legal and court process not only delays the contract commencement but also incurs legal fees impacting results.

The complexities of the contractual environment in which we operate has required us to employ more commercial people today than we had in 2010. We are also spending more on legal fees and arbitration than ever before. The non-award of tenders, non-payment by clients and non or delayed certification for completed work all impact liquidity.

The non-award of projects and restructuring led to a reduction in headcount of 2 471 to 1 478, with retrenchment costs of R14,5 million incurred. This reduction in headcount is despite the fact that we have secured additional work outside South Africa.

Notwithstanding current operating environment challenges, we are not intending to change our overall strategy from its current focus on water infrastructure and maintenance. We are adapting our tactics such as increasing our exposure to mining projects to keep our resources occupied and pursuing opportunities in neighbouring countries, but we remain focused on water infrastructure and maintenance. The need for bulk water infrastructure and the rehabilitation of existing lines far exceeds any budget made available. In his recent State of the Nation Address, President Ramaphosa said: "As some of our projects are taking time to get off the ground and to enhance our efforts, I will assemble a team to speed up implementation of new projects, particularly water projects, health facilities and road maintenance". This reinforces our strategy being aligned with government's intentions.

Another challenge in our operating environment is complying and adapting to the BEE charters and client requirements, with a number of advertised tenders amended in requiring Level 1 or 2 BEE certification to qualify for the tender. Esor is currently a Level 3 contributor and our medium-term aim is to achieve Level 2.

On the positive side our tendering and estimating department has never been as busy as they are now. However, not all bids lead to successful awards for Esor or our peers. During the 2017/18 financial year awards and pending awards in excess of R2 billion have been cancelled, and the multibillion-rand Diepsloot integrated development has seen very little traction, all as a result of the South African government's financial distress. That has forced Esor to bid and execute a number of small projects to remain competitive. This has resulted in substantial restructuring and headcount being halved over the last 15 months.

Our strategic shift, three years ago, included a focus on entering select African countries and now 16,2% of our revenue is ex South Africa with a stable order book of R334 million compared to R353 million in 2017, after executing revenue of R155 million during FY18. Investing outside South Africa requires capital and working capital investment, as well as resources, while overhead and support costs are double that of South Africa, making it an incremental growth approach. Operating and competing outside South Africa means adapting to local legislation and rules such as local legislation and indigenisation requirements and exchange control restrictions. The



We have seen positive growth in Swaziland, Botswana and Zimbabwe over the past three years and 38% of our secured work is outside South Africa.

”

requirement for bonding facilities in the bidding process further adds to the costs and complexity of doing business in these regions. We have seen positive growth in Swaziland, Botswana and Zimbabwe over the past three years and 38% of our secured work is outside South Africa.

Construction

Update on aqueduct projects

The four KwaZulu-Natal aqueduct projects were negatively impacted by further delays due to business forum and community unrest, rain and operational challenges. At the Northern Aqueduct completion of phase 1 and 3 is imminent with testing aimed to be completed in July 2018. We are in the process of rehabilitation and demobilisation which will be fully completed by August 2018. The insurance claim, related to a professional indemnity claim against the quality assurance sub-contractor at Northern Aqueduct, has been finalised and settled with the balance of the proceeds received in April 2018. It has been a two-year process in achieving a settlement and finalisation which had a severe impact on liquidity while funding losses of R200 million. Any and all delays in the finalisation had a spiralling impact on operations to fund these project cash flows, which at peak had a negative R25 million a month drain on the group's resources.

At the Western Aqueduct the Tshelimnyama contract has been practically completed, tested and handed over to the client. Phase I of Western Aqueduct has been subject to numerous delays and operational issues which resulted in contractual claims against the client which remain in various stages of finalisation. This resulted in a loss of R119 million for FY18. This will continue to impact cash flow and liquidity until September 2018 while finalising the works and until the entitlements and claims are finalised.

The completion of these projects will release retentions of R17 million in H1 2019, which together with the insurance claim settlement from Northern Aqueduct will have a positive effect on cash flow issues and assist in the payment of overdue creditors and sub-contractors in the short term.

Post year-end we completed and achieved practical completion on the underground terraces contract for Eskom at Kusile. This contract duration was initially for 30 months and a contract award of R311 million utilising seven teams. Due to various reasons, mainly related to non-access to work fronts and severe disruption caused by the client in the sequencing of activities, the contract was administered from an Esor point as being at-large. With some smaller and insignificant VOs issued, compared to the contract value, the final value escalated to R1,9 billion over a 74-month period and peaking at utilising 49 teams.

Developments

Our smaller Developments segment had a year of “*the good, the bad and the ugly*”. We have also reviewed our strategy of investment in mega projects which have a long lead time, implementation risks and are almost always reliant on government investments and subsidies. To this end, we will continue to focus on the smaller, private developments which have a quicker turnaround, while becoming less reliant on mega projects for the short term.

The **Good** was the conclusion and property transfer of the remaining 360 residential sites at our very successful Orchards development where Esor has also contributed towards CSI initiatives with the construction of a soccer field and recreational parks. We have full proclamation of the three commercial sites, which are being marketed with fair interest. One stand has been sold and an offer is being finalised on a second stand.

Chairman and CEO's report (continued)

The **Bad** – Uitvlugt development has been impacted by ongoing township approval and planning delays. In addition, the region is affected by slow economic growth all of which have contributed to a delay in starting the project. The project requires approximately R50 million to be spent on infrastructure before any top structure development can take place. Esor has accepted an offer for the sale of shares in the SPV, linked to a payment of a non-refundable deposit and the process should be finalised in July 2018.

The **Ugly** – Esor has terminated its relationship with the developer for the Khayelitsha project, following severe delays in the transfer of land and a resulting dispute on the implementation of the business plan.

With the delays in mega projects such as our Diepsloot development, in joint venture with Calgro M3, we have started to focus on smaller and ready-to-market developments such as a 10-unit development in Timm Street, Boksburg. The project is currently being implemented and construction will start in the next month. A number of other opportunities are being evaluated that may come to market during H2 2019.

Africa

The Lusip II infrastructure project in Swaziland, in joint venture with a local construction company, is progressing well and is on programme, subject to obtaining a number of rulings. As with most major projects, the contract is subject to VOs, quantity adjustments and re-ratings of

certain Bill rates that will have a positive impact on the project, once approved. The project is currently cash negative due to the impact of delayed approvals. The joint venture is yet to reimburse its partners to the value of R35 million.

The ZINWA and Harare Water and Sewer Projects in Zimbabwe are on time and on track for completion per programme. This has given us a solid base for other projects in Zimbabwe. Managing cash flow in Zimbabwe has been a balance between offshore and onshore receipts; however, there has been no impact on repatriation of funds as the major projects are funded offshore and payments are also made off-shore. While the procurement of materials has impacted cash on hand we have delivered on programme and within tender margins.

We continue to focus on Botswana, Zimbabwe and Swaziland as future growth opportunities and align with local partners to improve and ensure competitiveness and profitable execution.

Transformation

In November 2017, we redirected our focus to comply with the Revised Construction Sector Charter issued in December 2017. In the short term we aim to retain Level 3, improving to Level 2 in the medium term.

SHEQ

We have consistently reduced our LTIFR target over the last few years to 0,15 which we achieved again at year-end.

We continue to focus on Botswana, Zimbabwe and Swaziland as future growth opportunities and align with local partners to improve and ensure competitiveness and profitable execution.

”

We remain committed to zero harm and continue with training and awareness campaigns with our focus on leading indicators to prevent rather than repeat accidents. We employ more than 50% contract specific employees, which remains a challenge in ensuring our health and safety procedures are consistently applied and remain one of the leading companies in health and safety. We are proud to have recorded in excess of 20 million fatality free man hours.

We are ISO 9001, 14001 and OHSAS 18001 accredited and this accreditation has been integrated across all operations and is valid for three years.

Competition Commission and CIDB

Esor was not party to the Competition Commission's settlement reached in October 2016 between government and seven other South African construction companies. Esor settled amicably in a negotiated manner with the company concerned where Esor was found guilty of the offence under the fast track settlement that related to a matter in 2005. Negotiations with the Competition Commission are ongoing in relation to the Tribunal Inquiry into the 2009 complaint of collusive tendering practices in the geotechnical exploration and investigation works and we continue to follow the legal process and timelines. The Tribunal hearing commenced in April 2018 and will continue in November 2018 when we anticipate finalisation. We remain confident of our position.

Esor received a formal inquiry letter in December 2016 related to the CIDB intending to institute a formal inquiry in terms of Regulation 29 against the construction firms that were not a party to the voluntary rebuild programme agreement. We are in ongoing negotiations to reach an amicable settlement. The negotiated settlement and tribunal are running parallel and are set to be resolved by the end of this calendar year.

Going concern

Liquidity was severely impacted in the financial year. Not only through the completion of the aqueduct projects with R179 million loss accounted for in the FY2018, but general trading conditions as described above including contractual issues, non-payment, non-awards and Esor's challenging of awards through legal actions had an effect on liquidity. This resulted in Esor obtaining a R41 million loan from our majority shareholder Geomer Investments to assist

in bridging the liquidity crunch until major claims are resolved. To date, R8 million has been repaid with the balance of the loan repayment being linked to a minimum repayment of the balance of the loan amounting to R2 million a month, commencing effective from 31 August 2018. In addition, we have made use of our overdraft facility when required as well as disposing of idle and loss-making plant items. Post year-end we concluded a re-financing agreement with Mercedes-Benz to raise R12,2 million in finance to be repaid over an 18-month repayment plan.

A number of short and medium-term solutions and funding options have been implemented and explored using all available means. We have leveraged unencumbered assets within acceptable tolerance levels to increase gearing. We have also engaged with suppliers and sub-contractors to agree on extended payment terms.

The board has considered the going concern assumption and obtained external legal and financial advice to confirm the robustness of the cash flow and cash flow model for the next 15 months. KPMG issued a Reportable Irregularity report on 19 April 2018, sighting the liquidity crunch as an indication of financial distress. Continued effort and plans have been put in place to ensure Esor's ability to pay creditors when they fall due. The board is satisfied that the company is solvent and liquid both commercially and factually.

Directorate

Heather Sonn resigned as an independent non-executive director during the year to pursue other business interests. We thank her for her positive contribution during her tenure and wish her well in her future endeavours. Haroon Takolia was appointed as an independent non-executive and chairman of the audit and risk committee effective 16 November 2017. We welcome him to the board and look forward to growing the group together.

Subsequent to year-end, Bruce Atkinson resigned as CFO in order to pursue interests outside of the construction environment. We thank him for his loyal service to the group over the last 10 years and wish him well in his future endeavours. Proceedings to appoint a successor are under way and details will be announced in due course. In the meantime, we have requested and received approval from the JSE to combine the roles of CEO and acting CFO until 31 August 2018.

Chairman and CEO's report *(continued)*

Looking ahead

There is light at the end of the tunnel with approximately R1 billion in pending awards and almost R4 billion in targeted projects such as the 2B and 2E pipeline contracts in Limpopo. However, implementation of government policies needs to be actioned.

Pending work:

Water

- Olifants River Phase 2D R1,5 billion
- Fleurhof R40 million
- Weza dam R75 million
- Ezulwini pipeline R90 million (awarded post February 2018)

Infrastructure

- P700 Road R50 million
- Diepsloot East township development R2,5 billion

We remain focused on the Western Cape and the alleviation of the drought efforts and are targeting selective water opportunities in the region.

Positive meetings are being held with different spheres of the Zimbabwean government and parastatals with some low hanging fruit opportunities in collaboration with our local partners.

We do see a new dawn with billions of Rand worth of pending awards and targeted projects in South Africa. Government's commitment to raise USD100 billion for investment opportunities also bodes well for the future. Our focus in Africa will continue and we will seek to dedicate additional resources to this and look at identifying an Africa foothold.

Esor needs to continue to restructure, down-scale, prevent own goals and survive through this extremely difficult and competitive time, when once again we can rise and become the force we are. The five-year restraint of trade in the geotechnical business expires in November 2018 and we are gearing up to re-enter the market.



Bernie Krone

Chairman



Wessel van Zyl

CEO

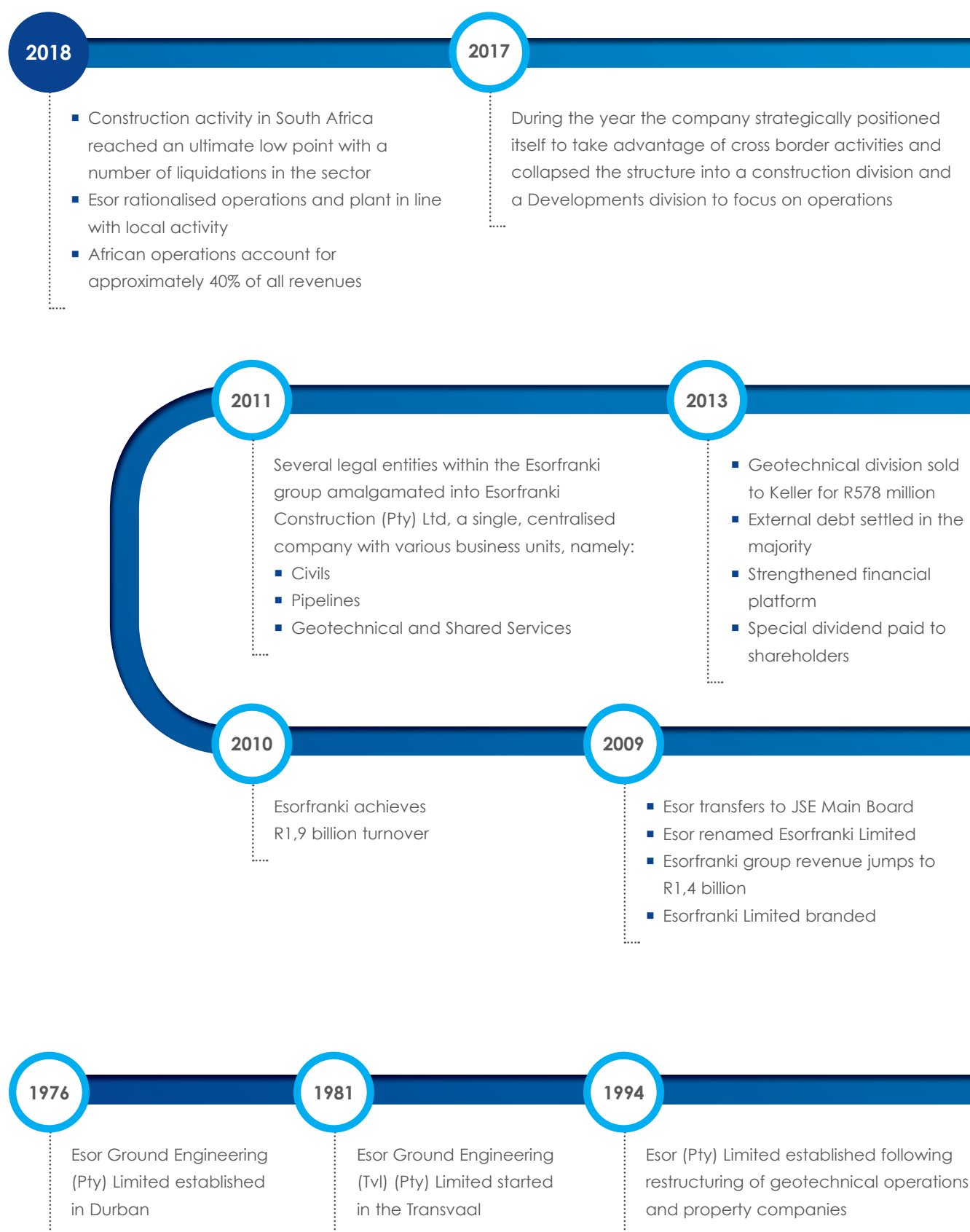
29 June 2018



Esor overview

- 12 *Milestones*
- 14 *Esor at a glance*
- 15 *Our market in context*
- 16 *Directorate and executive management*

Milestones



2016

Esor Construction regionalised into Inland, East Coastal, West Coast and Africa divisions for enhanced focus and opportunity, with each of these sub-divisions focusing on all five product areas in their respective regions

Esor acquires Tuboseal Services Proprietary Limited, effective from 1 September 2016.

Tuboseal will operate as a subsidiary of Esor Construction (Pty) Ltd, being a subsidiary of Esor Limited.

2014

Refocus on higher margin operations. Reverts to branding Esor Limited, comprising the core divisions of Civils, Pipelines and Developments

2015

Operational restructuring in 2015, the group focuses in two core divisions: Esor Construction and Esor Developments. Esor Construction has five focus areas: Esor Infrastructure, Esor Building and Housing, Esor Pipelines, Esor Sanitation and Esor Pipe Services

2008

- Esor acquires the Patula and Shearwater groups, diversifying into civil engineering and pipeline construction
- Esor wins AltX National Business Award

2007

Esor achieves R1 billion turnover

2006

- Esor lists on AltX
- Esor acquires Franki

1995

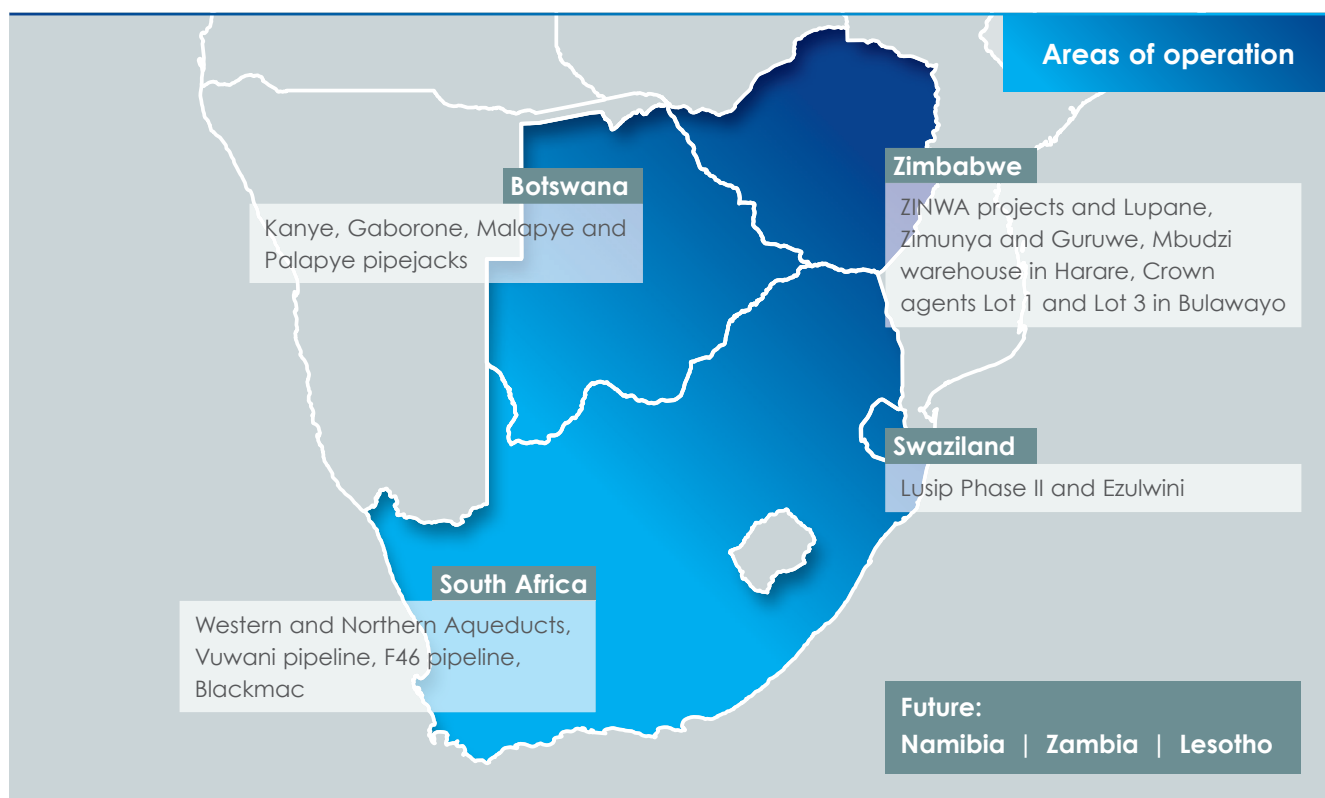
Patula group established

2002

Shearwater group established

Esor at a glance

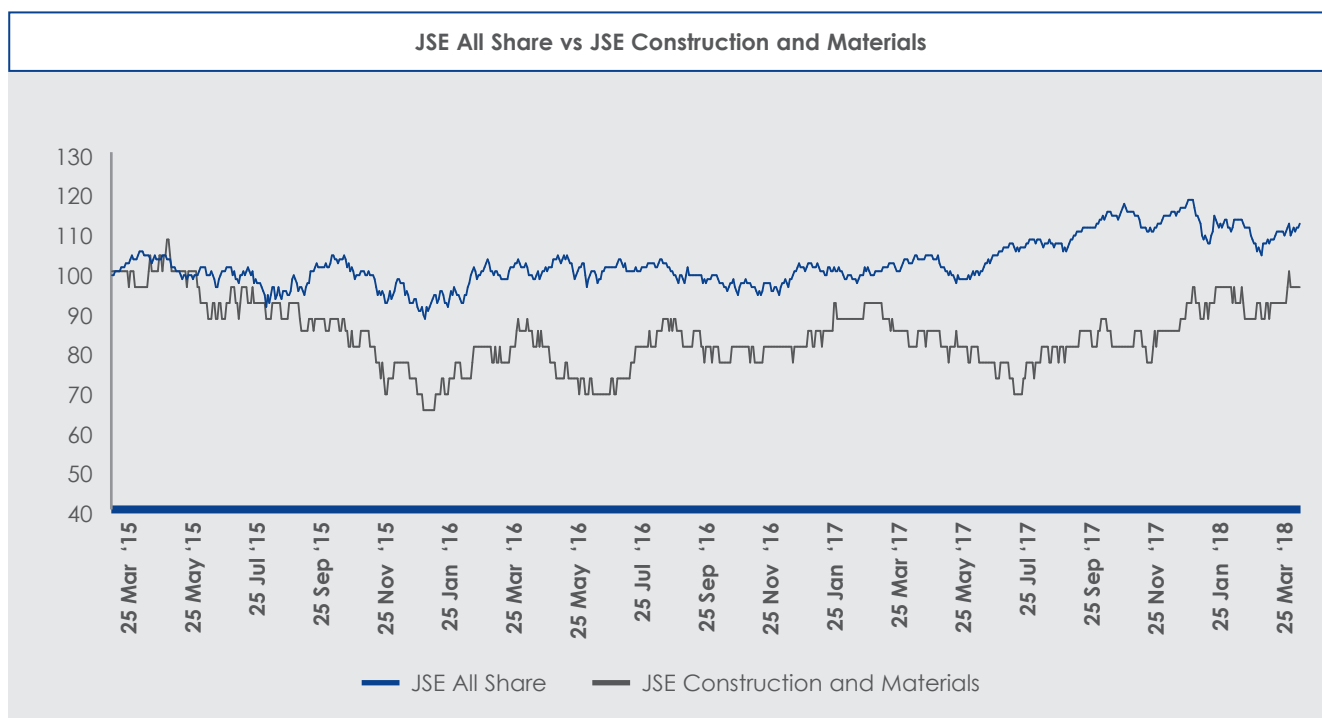
Esor is a multi-disciplinary construction and development group focused on product delivery in niche sectors of the construction market and infrastructure development projects in southern Africa. We operate through two divisions: Esor Construction, which includes infrastructure, building and housing, pipelines, sanitation and pipe services (including geotechnical in Zimbabwe and Tuboseal); and Esor Developments.



Our market in context

During 2017 confidence in the South African construction industry plummeted to a 17-year low. Factors such as slow economic growth, policy uncertainty and the underperforming Rand left investors uneasy.

Sentiment towards the sector was largely negative and can be seen in the poor performance of the Construction and Materials Index when compared to the JSE All-Share index.



However, a reduction in budget constraints and the government's propensity to divide projects into smaller components in support of emerging black empowerment-based SMMEs led to a dramatic rationalisation of the industry.

Outlook

The construction industry, a major contributor to employment and economic growth which last year contributed an average of 3.9% to the country's gross domestic product, is set to benefit from government's proposed R940 billion infrastructure spend.

The government's investment in low-cost housing, renewable energy projects, water infrastructure, transport

and logistics infrastructure will be the key to projected (albeit moderate) growth. However, in order to remain competitive, the industry will continue embracing cost-saving measures as the impact of the "Ramaphosa factor" remains an uncertainty in the projected outlook.

The construction industry typically lags the general industry in South Africa by about six months – any green shoots in the local economy may well be early indicators of a more robust construction sector in the months to come.

Furthermore, the Zimbabwean landscape continues to improve with an upsurge in construction and Botswana's GDP from construction shows vast improvements which both prove promising for Esor's operations outside of the South African border.

Sources

<https://www.iol.co.za/business-report/economy/construction-industry-a-good-growth-barometer-14258859>

<https://tradingeconomics.com/botswana/gdp-from-construction>

https://thevault.exchange/?get_group_doc=189/1520260209-MerrillLynchSunCityConferenceMarch2018.pdf

Directorate and executive management

Executive directors



Wessel van Zyl CEO

Independent non-executive directors



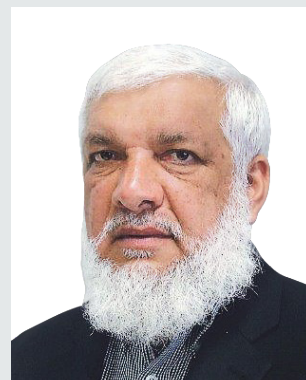
Bernie Krone Chairman



Ossie Franks



Reneiloe Masemene



Haroon Takolia

Executive management



Dave Gibbons



Warren van der Vyver

Executive directors

Wessel van Zyl (born 1967)

CEO CA(SA)

Wessel qualified as a Chartered Accountant (SA) in 1991 after serving articles with PWC. He left the auditing profession to work in the financial and taxation fields, later joining the construction industry in 1997. Wessel previously worked in the specialist fields of auditing, taxation, treasury and heading up the Corporate Office at Aveng Group before he was appointed at Grinaker-LTA as Financial Director in 2009. Wessel joined Esor as CFO in October 2012 and was appointed CEO in September 2014. He is a professional member of SAICA and has no other commitments outside of Esor.

Independent non-executive directors

Bernie Krone (born 1953)

Chairman BSc Eng (Civil), Pr Eng FSAICE

Bernie has 40 years' experience across all aspects of geotechnical engineering. Born in Halstead, England, he moved to South Africa as a child. After attaining professional engineer status, he gained experience at major geotechnical engineering companies before joining Esor (Pty) Limited. After serving as CEO of the listed Esor group for eight years, he retired in September 2014 from an executive role and was appointed non-executive chairman. In August 2017 he was classified as independent. Bernie is a registered Professional Engineer (PrEng) with the Engineering Council of South Africa (ECSA).

Reneiloe Masemene (born 1981)

LLB, LLM

Reneiloe, an admitted attorney of the High Court of South Africa, is Group Legal Counsel and company secretary for DRD Gold Limited. She has over 10 years' experience in all areas of mining law, as well as in the corporate, commercial, contractual, employment and litigation aspects related to mining. Reneiloe practiced as an associate at a Sandton law firm before becoming a consultant advising on broad-based black economic empowerment transactions and then joining DRD Gold as a legal advisor. She serves on Esor's social and ethics and remuneration and nomination committees. She was appointed to the Esor group board in August 2016.

Oswald "Ossie" Franks (born 1953)

Lead Independent Director PhD (Engineering Science), BSc Eng (Mechanical), M Industrial Admin, Honours Business & Admin, Government Certificate of Competency: Mines & Works

Ossie is a registered Professional Engineer (PrEng) with the Engineering Council of South Africa (ECSA) and has more than three decades of experience in industry and academia. He has been the Dean of the Faculty of Engineering, Built Environment and Information Technology at the Nelson Mandela Metropolitan University since July 2013. Prior to that he was Chief Executive Officer of ECSA and Dean of Engineering at the Cape Peninsula University of Technology. Ossie is a recipient of both a USAID and a British Council scholarship. He has served on various boards and councils including the Department of Science and Technology's Board of the Technological Human Resource Industry Programme (THRIP), the National Advisory Council on Innovation's Task Team on Infrastructure for Research & Development, and the Council of the Vaal University of Technology. He was appointed to the Esor group board in May 2013.

Haroon Takolia (born 1951)

CA(SA), MBA (Wits)

Haroon qualified as a Chartered Accountant in 1981. He has run his own audit practice for many years and is respected in the industry. Haroon serves on a number of social and educational boards as well as that of Ascension Properties Limited and AH-Vest Limited. He was appointed to the Esor board on 16 November 2017 and serves as chair of the audit and risk committee.

Executive management

Dave Gibbons (born 1966)

Managing Director – Africa Dip Mining Survey

After qualifying in the mining industry in 1988, Dave joined WK Construction where he served for 18 years garnering experience in the pipeline industry, before joining Shearwater KwaZulu-Natal. Dave was appointed as Managing Director of Esor Pipelines in 2011 and is currently Managing Director of African operations. From 1 March 2018 Dave will focus on the African operations with the specific role of growing the footprint into a separate segment in future years.

Warren van der Vyver (born 1976)

MD South Africa and Commercial NDip Civil Eng (Pretoria Tech)

Warren started his career as a Civil Engineering bursar with LTA in the mid-90s. Following 10 years' service at Aveng Group, he pursued a career as a specialist in the commercial aspects of construction and construction contracts in a smaller and more deft environment. Having run his own business providing construction dispute and litigation assistance to Esor, Warren joined the Exco in May 2014. Warren is experienced in a wide range of construction disciplines such as civils, earthworks, pipelines, mechanical, railways, building and structural steel and has been pivotal in resolving major disputes in these areas. With effect from 1 March 2018 Warren's role will include the responsibility for the South African operations.

Our strategy

- 19 *Our strategic scorecard*
- 20 *Our business model*
- 22 *Our material issues and risks*

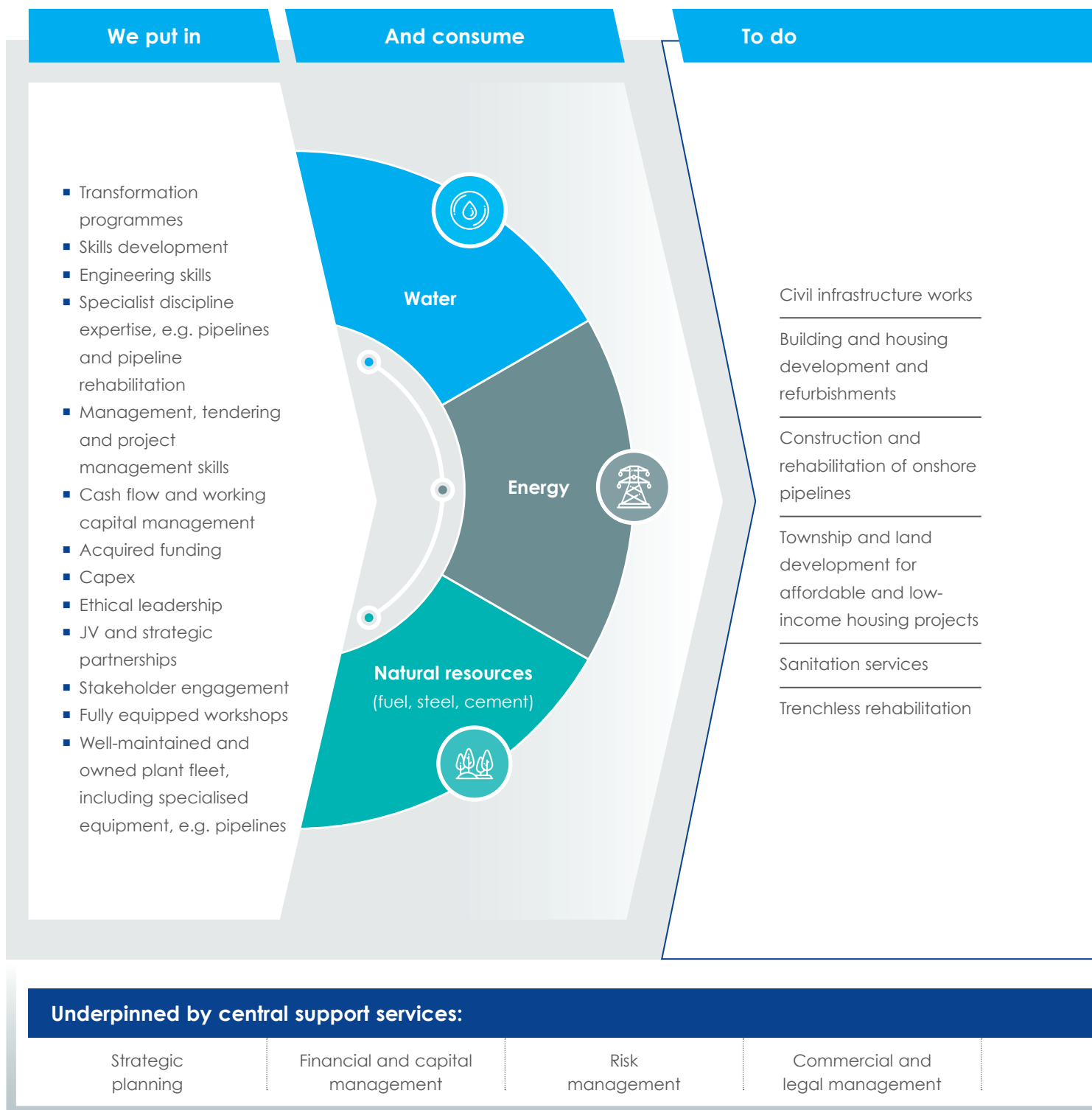
Our strategy scorecard

Objective	Status	Action
Financial target ("PBIT")	Ongoing	Achieve positive result by reducing overheads and reducing contract losses.
Restructure operations	Completed	Split into two segments of Esor Construction and Esor Developments without regional differentiation implemented. In light of current construction activity throughout South Africa, this is an item that is more tactical than strategic with ongoing focus on right sizing and balancing skills and resources.
Protect cash	Ongoing	Eliminate unnecessary expenditure, improve debt collection and finalisation of claims. Exco and management meetings are dominated with discussions and action items relating to collection and preservation of cash. Debtor collection is priority one, two and three. Coupled with finalising claims and ensuring certification for work done has become a major portion of the workload and responsibility. We have a number of initiatives on the go to raise finance and plans to pay suppliers and sub-contractors. All of these are aimed at improving liquidity and ensuring survival.
Legacy contracts	Ongoing – expected completion of the four Aqueduct projects in H1 2019	Insurance claim at Northern Aqueduct finalised and final settlement received. Tshelimnyama contract tested and handed over to client. Finishing programmes submitted to client, for remaining three contracts.
Select African growth	Ongoing	Increase current level of 16,2% of non-South African revenue to 30% – 35%. Contracts in Swaziland, Botswana and Zimbabwe. Specific focus on Botswana in 2018.

	Growth	SADC	Delivery	Market	Competitive edge	Margin	Compo- sition	Strategy	Progress
Building and housing	➔	✗	✓	⬆	—	🔴	🔴	Hold	Lagging
Infrastructure	➔	✗	✓	—	—	🔴	🔴	Consolidate	On track
Pipelines	⬆	✓	✓	⬆	✓	🟡	🟡	Hold market share	On track
Pipe services	⬆	✓	✓	⬆	✓	🟢	🟢	Grow	Exceeding
Sanitation	⬆	✗	✓	⬆	✓	🟡	🟡	Grow	Area of concern

Our business model

We apply the six capitals – natural, social, intellectual, financial, human and manufactured – to produce and deliver a wide range of construction and engineering-related solutions with various outputs and outcomes.



To deliver (outputs)

Concrete structures, e.g. bridges, reservoirs

Schools

Hospitals

Sanitation facilities

Mine and power station infrastructure

Building refurbishments

Water pipelines

Fuel pipelines

Gas pipelines

RDP, affordable and gap housing

Water treatment works

Trenchless maintenance

Pipe, culvert and bridge jacking

Piling in selected areas

With the by-products of:

- Noise
- Dust
- Carbon emissions
- Waste water
- Recyclable solid waste
- Hazardous waste

Our outcomes

Projects in adherence with EMPs

Collaborative relationships with clients, unions, employees, government

Enterprise and supplier development

Upskilled LDC

Enhanced engineering and construction industry expertise

Shareholder value

Taxation payments

Enablement of service providers and sub-contractors

Job creation

Graduate and bursar experience

Strengthened national infrastructure

Potential for national growth through preparation for construction and development

Rehabilitated pipelines

SHEQ
management

HR
management

Stakeholder
management

IT and information
management

Taxation
management

Our material issues and risks

Material issue	Risk	Actions
Insufficient diversity <i>Challenges</i> ■ Concentration of projects with one client ■ South Africa-focused with minimal African exposure ■ Lack of annuity-based income	Economic dependency ■ Majority of projects with Eskom and government ■ Growth dependent on South African economy ■ Capital project focused and lack of adequate maintenance type work	■ Diversify into niche markets such as pipeline rehabilitation with Tuboseal Services ■ Focus on areas where demand is expected to increase ■ Avoid markets with high levels of competition ■ Focus on annuity and maintenance type work in niche products ■ Build reputation through strong brand ■ Ensure competitive offering ■ Targeting projects in selected African countries – Botswana, Swaziland and Zimbabwe
Financial liquidity (Financial management during times of consolidation followed by growth) <i>Challenges</i> ■ Balancing the group's legacy loss-making contracts and growth with financial requirements for servicing investments in developments ■ Negative project cash flows with few advances and increased retentions	Reputational risks and non-delivery ■ Below par profitability ■ Not managing working capital ■ Delayed and late debtor payments ■ Becoming a company with a reputation of slow and unpredictable payment terms ■ Going concern	■ Understanding contract payment terms ■ Certification and debtors management ■ Daily and weekly cash forecasting ■ Raising short-term debt to ensure meeting payment requirements ■ Supplier and sub-contractor communication to establish trust ■ Sufficient capital to meet business objectives ■ Providing company and institutional guarantees to free up cash retentions ■ Tougher debt collection ■ Improved financial systems ■ Monthly reviews by Exco of contracts and ongoing costs ■ Raising short-term debt
Reputation <i>Challenges</i> ■ Below par performance damaged our group reputation and overshadowed our key areas of strength ■ Securing work ■ Building the brand in new geographical areas	Project delivery ■ Underperforming contracts Supplier relationship ■ Non-predictable payment cycles Bribery and corruption ■ Irregular award of contracts and subsequent challenges in court ■ Competition Commission Tribunal process ■ CIDB negotiations	■ Ensure quality and on-budget delivery ■ Realigned strategy ■ Clear future focus based on market prospects ■ Customer relations ■ Align market expectations with realistic delivery ■ Compliance and a whistle blowing process ■ Corporate governance best practice ■ Enforce Code of Conduct ■ Fraud awareness campaigns ■ Zero tolerance approach ■ Ongoing anti-competitiveness awareness training
SHEQ ■ SHEQ issues may pose a threat to the health and welfare of our employees, customers, the environment and ultimately group reputation	Injury to employees ■ Hazardous environment ■ Unsafe workplace ■ Fatalities ■ Not qualifying for tenders ■ Removal from client database	■ ISO 9001, 140001 and OHSAS 18001 accreditations ■ Superior safety record ■ Focus on leading indicators to reduce injuries ■ Regular internal and external audits ■ Health and safety training ■ Strategies for reducing, reusing and recycling resources ■ Environmental training

Material issue	Risk	Actions
Earnings growth - Intensifying competition and margin squeeze - Amended B-BBEE Codes of Good Practice requirements essential for securing government and parastatal contracts	Dependency on government contracts - Intense competition limits market opportunities - Revenue focus vs. profit focus - Government budget constraints	- Agility to go where the work is - Targeting higher margin private sector projects, e.g. private smaller developments - Taking equity share in developments - Maintained Level 3 B-BBEE under the revised Construction Charter - Product and market diversification - Regional focus - Value chain approach
Skills shortage - Competing for scarce skills in competitive market - Providing focused training and development programmes	Impact on profitability - Inexperienced staff - Staff retention - Contract losses - Succession planning - Continuous restructure and downsizing	- Creating an attractive employment proposition - A people-centred culture with skills development programme and succession planning - In-house training programmes - Promotion from within - Esor share scheme implemented
Securing work/order book - Sustainability - Order book growth - Securing quality work	Loss in market share - Chasing "wrong" work - Decrease in secured work - Over-tendering - Tender cancellations - Fraudulent awards	- Centralised estimating capabilities - Entrenched tender finalisation process - Improved client relationships for repeat work - Registering on client databases - Focus on niche and core competence tender enquiries - Client approach with funding proposals rather than reactive tendering approach
Industrial action - Increased union and employee expectations - Negotiations on wages and benefits - Wildcat strikes	Loss in productivity - Intimidation of non-striking employees - Impact on productivity	- Open and regular union and employee communication - Unity in central negotiations - Appointing specialists, with industrial relations function on large sites
Community unrest - Widespread community actions - Illegitimate business forum demands	Unproductiveness/contract delays and losses - Productivity negatively impacted - Employee safety	- Comply with CPG goals - Train ED champions - Ensure active client involvement



Our performance

25	<i>CFO's report</i>
28	<i>Five-year review</i>
30	<i>Value added statement</i>

CFO's report

Introduction

Esor reported a profit before tax of R3,1 million for the H1 to August 2017, however, the group recorded a full year loss of R300 million. The second half was severely impacted by further losses suffered on the Western and Northern Aqueduct projects due to project delays following community unrest and a number of client delays that are subject to contractual claims and adjudication of extension of time. The Developments division's results were negatively impacted by delays in approvals at both the Diepsloot and Uitvlugt projects and Esor's decision to withdraw from the Khayelitsha development. Goodwill impairment is tested once a year, at February, and with the current economic environment and trading results, resulted in an impairment of R61,8 million.

Operational review

The group reported an operating loss for the year of R291,5 million (2017: loss R160,8 million) in difficult trading conditions. Included in this loss was the goodwill impairment of R61,8 million (2017: R50,3 million) in the Construction business unit. Excluding the non-trading loss and the aqueduct losses as mentioned above, an operating loss of R50,7 million (2017: R59,3 million) was incurred.

The repair work to the Northern Aqueduct phases 1 and 3 for quality issues relating to welds and pipe misalignments, which were not identified by the independent external quality inspector, has continued throughout the year and was completed in December 2017. The insurance claim relating to the welds portion of the repair work was finalised post year-end and the balance of the claim was received in April 2018. The finalisation of the insurance claim took more than two years to finalise and had a substantial negative effect on liquidity during the period and the consequential effects are still being felt. We have incurred a further loss in the year of R60 million on this contract and a life to date loss of R207 million.

Several projects performed to budget and better than budget, that includes the F46 project for Rand Water, Mooihoek water scheme projects for Sekhukhune district municipality, Blackmac lining project for City of Cape Town. The resolution and payment of outstanding claims on the Package 26 contract for Eskom at the Kusile Power Station is still in a process of substantiation and resolution,

none of the claims value has been recognised in revenue at 28 February 2018. This contract was practically complete by 11 May 2018 and only snags are being attended to during the maintenance period.

Financial review

Consolidated statement of profit and loss and other comprehensive income

The delays and cancellations in contract awards, community unrest and the non-income producing repair work on the Northern Aqueduct project have resulted in a 30% reduction in revenue to R1 billion. Cancelled and delayed contract awards had an estimated revenue impact of R600 million for the 2018 financial year and was the major contributor towards this lower revenue. Pleasingly revenue outside South Africa increased due to the strategic focus on securing work in neighbouring countries that offset the lower revenue base from South African operations. The group recorded a headline loss per share of 52,1 cents (2017: headline loss of 24,4 cents per share) which represents a 113,5% increase. Included in headline earnings adjustment is the goodwill impairment of R61,8 million (2017: R50,3 million).

Gross profit margins dropped to a negative 12% (2017: 1,1%) on the back of the losses on Western and Northern Aqueduct, impairment of claims not considered in an advanced stage of negotiations to the value of R80 million while net overheads decreased by R24 million to R79 million (8,2% of revenue). Net finance expense of R9,6 million compared to net finance income of R5,4 million in 2017 was a result of the negative cash position of the group during the year and non-recognition of any interest income on the Kathu loan until the property is transferred into Esor's name. The losses suffered during the year have put further strain on the cash flows and the overdraft and trade finance facilities remain well utilised.

The tax charge of R5,8 million (2017: credit of R15,7 million) resulted in an effective tax rate of 2% (2017: 10,1%). The lower rate is largely attributable to the non-recognition of deferred tax assets on the losses suffered in Esor Construction (Pty) Ltd and the impairment of goodwill.

The loss after tax amounted to R306,9 million (2016: profit of R139,8 million).

CFO's report (continued)

Consolidated statement of financial position

Property, plant and equipment

Property, plant and equipment decreased to R157 million from R197,6 million primarily through the charge of R33 million in depreciation, acquisition of R18 million (through capitalisation of previously leased assets) and disposals of R22 million of non-profit generating equipment following the downscaling in operations. The lower levels of capital expenditure over the last four years will be increased in the 2019 year as new projects become active and expanding the capacity of the pipe rehabilitation operations. The board has approved capital expenditure of R20 million for the 2019 financial year.

Goodwill

Our annual impairment test done in February 2018 was based on our projections and estimates as further disclosed in note 5 to the financial statements. Due to the losses suffered it was deemed appropriate to further impair the goodwill by R61,8 million (2017: R50,3 million) to R3,6 million (2017: R65,4 million).

The valuation was done internally based on a discounted cash flow method on a continuing basis and reviewed by KPMG.

Trade and other receivables

Trade and other receivables reduced to R214,8 million (2017: R466,2 million) despite slower collections from debtors and higher outstanding retentions. The improvement been the result of the reduction in construction revenue (30%) as well as critically evaluating all claims and uncertified revenue, resulting in an impairment of R80 million in the current year, and the resolution of the insurance claim of R48 million that was included in receivables at February 2017. The receivables impairment provision was increased to R5,6 million (2017: R5,4 million). Provisions have been raised on all contractual disputes, where appropriate.

The days outstanding in the trade receivables (excluding retention debtors) increased to 73 days (2017: 50 days) on the back of reduced revenue, increased payment terms on cross-border projects with average payment terms of 56 days and reduced collections at year-end. This ratio is outside group risk tolerance levels of 60 days. The South African credit risk exposure is around municipal and provincial government as well as parastatal entities as detailed further in notes 31 and 32 to the annual financial statements.

Cash and cash equivalents

The daily management of cash resources remains a critical focus area for the group. The group's net cash outflow from operating activities amounted to R46,7 million (2017: R23,9 million), largely as a result of losses incurred on the Western and Northern Aqueduct contracts.

The R18,3 million acquisition of property, plant and equipment was funded through cash resources from the disposal of under-utilised plant and equipment. The repayment of secured borrowings of R22,3 million was in line with the repayment terms of the various asset finance deals. The group raised R42,6 million (2017: R4,7 million) in borrowings from Geomer, see note 14 to annual financial statements for details of securities and repayment terms.

The short-term overdraft facility with ABSA was renewed at R50 million and the group has been operating within that limit. Finance, borrowing and guarantee facilities of R930 million (2017: R1,2 billion) are also available as outlined in note 16.

Share capital and reserves

The share capital and premium of R617 million at group level remained constant with no further shares issued, following the rights offer in February 2017. No material impact on either weighted average shares or diluted average shares has occurred as the employee share trust allocations and vesting will only materialise in July 2018.

The foreign currency translation reserve remained consistent at R27,6 million (2017: R28,4 million) with relatively low levels of activity in foreign regions, but currently increasing.

Non-current liabilities

Secured long-term borrowings increased substantially in relative value after raising R42,6 million in shareholders' loans and a repayment of R22,3 million (2017: R37,8 million) in vehicle asset finance. Secured borrowings include a R35,0 million interest free bond registered over the Uitvlugt property. Gearing has deteriorated to 32,9% from 14,8% at the comparative year-end due to the increase of R20 million in borrowings as well as a reduced equity base following the losses accounted for in the 2018 financial year.

Current portion of non-current liabilities

Most the instalment sale loans and the unsecured loan are repayable in the next 12 months and are included under current liabilities. Also included in the current portion is an amount of R14 million that is payable to Geomer in terms of the loan agreement entered into in August 2017 and December 2017, repayable at R2 million a month from August 2018.

Trade and other payables

Trade and other payables include R22,8 million (2017: R101,6 million) due to customers. This is represented by advances received from customers in terms of contractual agreements as well as overclaims in the normal course of business. The cost of sales days outstanding in trade and other payables increased to 51,7 days (2017: 50,5 days) mainly due to the timing of payments made to suppliers around year-end. The creditor payment days have over the last year stayed fairly constant although Esor has found it difficult to pay all creditors within 60 days, mainly due to several large creditors that have a strict 30-day payment term.

Order book

Esor's order book has reduced substantially at R900 million (2017: R1,5 billion) and is spread across all divisions and geographic locations. The major impact on the order book was the effect of non-start at the Olifants River 2D project, further delays in approvals at Diepsloot as well as several smaller projects that were cancelled. Potentially R4,7 billion was therefore excluded from the total order book, of which R1 billion could have been included in the two-year order book as being executable. Government's inability to secure funding is the main reason for this impact on non-awarded work.

Borrowing facilities

The annual review of our banking facilities has again been successfully completed with our primary transactional bankers. The current group borrowing facilities are described in note 16 to the annual financial statements, and are secured by various notarial bonds and cessions. With the current prolonged downturn in the construction sector, banks are taking a cautious approach to maintaining

or increasing facilities. We are comfortable with the level of facilities available to the group.

Dividend

The board has resolved that no dividend be declared considering the solvency and liquidity requirements of the group and considers it prudent to conserve cash.

The year ahead

The group has access to adequate overdraft, trade finance, asset-based finance and guarantee facilities through both financial and insurance institutions to provide both working capital and bonding facilities to support the operations for the 2019 financial year. These facilities are reviewed on a regular basis as the requirements for facilities are shifting to non-South African operations that have different requirements and not always able to be supported by South African facility providers.

Going concern

The board is satisfied that the company will continue to trade as a going concern in the following 12 months based on current cash resources and facilities available.

I refer you to the Chairman and CEO report as well as notes 45 and 46 to the annual financial statements for further details on the ability of the group to trade as a going concern as well as actions implemented for the short-term recovery of the liquidity position.

KPMG raised a Reportable Irregularity report that was closed out in May 2018, see note 46 in annual financial statements, following the group's liquidity crunch after incurring substantial losses as well as some debtors applying for liquidation and business rescue.



Wessel van Zyl

Acting CFO

Johannesburg

29 June 2018

Five-year review

for the year ended 28 February 2018

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014* R'000
Consolidated statements of profit or loss					
Revenue	959 357	1 373 048	1 435 901	1 448 363	1 592 835
Cost of sales	(1 077 306)	(1 358 591)	(1 353 798)	(1 385 681)	(1 611 624)
Gross profit/(loss)	(117 949)	14 457	82 103	62 682	(18 789)
Other income	4 274	28 807	52 589	10 170	10 564
Operating expenses	(83 016)	(131 141)	(52 899)	(95 963)	(127 117)
(Loss)/profit before interest, depreciation and taxation	(196 691)	(87 877)	81 793	(23 111)	(135 342)
Depreciation, impairments and amortisations	(94 834)	(72 967)	(78 016)	(78 650)	(146 419)
(Loss)/profit before interest and taxation	(291 525)	(160 844)	3 777	(101 761)	(281 761)
Finance income	1 210	13 670	12 577	19 538	4 980
Finance costs	(10 815)	(8 248)	(9 851)	(22 983)	(42 420)
(Loss)/profit before taxation	(301 130)	(155 422)	6 503	(105 206)	(319 201)
Taxation	(5 809)	15 666	(2 820)	5 314	102 862
(Loss)/profit from continuing operations	(306 939)	(139 756)	3 683	(99 892)	(216 339)
Discontinued operations					
Profit from discontinued operations, net of income tax	—	—	—	—	50 178
(Loss)/profit for the year	(306 939)	(139 756)	3 683	(99 892)	(166 161)
Headline earnings/(loss) reconciliation:					
(Loss)/profit for the year	(306 939)	(139 756)	3 683	(99 892)	(166 161)
(Loss)/profit on disposal of property and equipment	1 442	85	2 678	(893)	294
Loss on disposal of discontinued operations	—	—	—	—	38 190
Impairment of property	2 095	—	—	—	—
Impairment of goodwill	61 817	50 274	47 108	29 739	84 638
Headline earnings/(loss)	(241 585)	(89 397)	53 469	(71 046)	(43 039)
Earnings per share					
Basic (loss)/earnings per share (cents)	(66,2)	(38,1)	1,0	(26,4)	(43,5)
Diluted (loss)/earnings per share (cents)	(64,9)	(36,7)	1,0	(26,4)	(43,5)
Headline (loss)/earnings per share (cents)	(52,1)	(24,4)	14,4	(18,8)	(11,3)
Dividend per share (cents)	—	—	—	—	38,0

* Continuing operations.

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014* R'000
Consolidated statements of financial position					
Assets					
Non-current assets	231 619	337 556	404 539	475 950	613 660
Property, plant and equipment	157 014	197 624	178 381	230 932	320 135
Goodwill	3 630	65 447	112 091	155 323	185 062
Financial assets held at fair value through profit or loss	–	–	51 228	29 488	64 923
Deferred tax assets	17 323	31 044	10 186	10 566	11 457
Investment and loan to joint venture	52 891	42 680	51 892	48 880	–
Loans and long-term receivables	761	761	761	761	32 083
Current assets	404 686	680 421	696 386	753 117	935 151
Loans and receivables	40 578	40 578	35 428	35 014	–
Inventories	97 921	98 557	108 075	149 374	221 345
Non-current asset held for sale	3 500	–	9 500	20 046	–
Taxation	54	13 840	15 552	8 014	13 455
Trade and other receivables	253 342	522 086	485 409	504 330	659 928
Cash and cash equivalents	9 291	5 360	42 422	36 339	40 423
Total assets	636 305	1 017 977	1 100 925	1 229 067	1 548 811
Equity and liabilities					
Share capital and reserves	259 776	566 794	669 102	667 340	777 219
Share capital and premium	617 236	617 236	581 014	583 730	586 145
Equity compensation reserve	1 421	557	72	–	19 213
Foreign currency translation reserve	27 554	28 497	27 756	27 033	23 665
(Accumulated loss)/retained earnings	(386 435)	(79 496)	60 260	56 577	148 196
Non-current liabilities	66 267	71 136	72 968	121 586	207 802
Secured borrowings	58 332	38 814	45 726	101 837	163 043
Preference shares	–	–	–	–	23 424
Deferred tax liabilities	7 935	32 322	27 242	19 749	21 335
Current liabilities	310 262	380 047	358 855	440 141	563 790
Current position of secured borrowings	32 614	31 869	55 093	82 920	74 350
Current portion of preference shares	–	–	10 605	21 000	–
Bank overdraft	45 947	27 487	–	–	19 131
Financial liability at fair value through profit or loss	–	–	5 843	–	–
Taxation	5 086	146	714	2 644	19 583
Provisions	–	–	17 040	11 458	13 713
Trade and other payables	226 615	320 545	269 560	322 119	437 013
Total equity and liabilities	636 305	1 017 977	1 100 925	1 229 067	1 548 811
Number of ordinary shares in issue ('000)	493 982	493 982	395 185	395 185	395 185
Weighted average number of ordinary shares ('000)	463 738	367 101	370 506	378 110	381 970
Diluted weighted average number of shares ('000)	473 270	380 889	378 996	378 110	381 970
Net asset value per share (cents)	56,0	122,2	183,4	178,3	203,5
Net tangible asset per share (cents)	54,1	112,1	161,2	148,4	168,6

* Continuing operations.

Value added statement

	2018 R'000	%	2017 R'000	%
Revenue	959 357		1 373 048	
Cost of materials and services	(1 077 306)		(1 002 996)	
Total value added	(117 949)		370 052	
Value distribution				
To employees				
Remuneration and benefits	368 994	(313)	445 244	120,4
To providers of finance				
Net finance costs	9 605	(8,1)	7 263	1,9
Forex loss on foreign bank accounts	10	(0,01)	–	–
To providers of capital				
Dividends to Esor shareholders	–	–	–	–
To governments				
Current taxation	(14 708)	12,5	1 164	0,3
Foreign taxation	(2 038)	1,7	312	0,1
To reinvest in business				
Retained income	(306 939)	260,3	(139 756)	(37,8)
Depreciation, impairments and amortisation	94 834	(80,4)	72 967	19,7
Deferred taxation	10 937	(9,3)	(17 143)	(4,6)

	2018 R'000	2017 R'000
Average number of employees (individuals)	1 975	2 533
Revenue per employee (R'000)	486	542
Value (lost)/created per employee (R'000)	(60)	146



Our impacts

32 *Social and relationship capital*

36 *Human capital*

41 *Natural capital*

Social and relationship capital

Social and relationship capital encompasses our relationships with communities, groups of stakeholders and other networks as well as our commitment to South African transformation needs.



Our stakeholder engagement

Our relationships with our key stakeholders impact directly and indirectly on our business activities and reputation. Managing stakeholder relationships is key to sustainable value creation and allows Esor to identify and address risks and opportunities timeously. We have identified our key stakeholders and ensure regular engagement that is conducted in an open and transparent manner.



Stakeholder	Why is the stakeholder important to us	Expectations of our stakeholders	Concerns of our stakeholders	Means of engagement
 Shareholders and the investment community	Provide share capital required to sustain our growth	- Access to CEO and CFO - Solid succession plans in place	- Sound governance, compliance and risk management - Sustainability - Profitability - Share price and dividends - Cash generation - Growth prospects - Loss-making contracts	- Roadshows - Regular presentations - Integrated annual reports - Published interim and annual results - One-on-one meetings
 Funders, creditors and lenders	Provide funding required to sustain our growth	- Regular updates, particularly in the current economic environment, regarding cash forecasts to maintain the level of the facilities the business requires - Mitigation of loss-making contracts - Management's ability to manage risks and opportunities	- Solvency and liquidity - Capital management - Sustainability - Credit rating	- One-on-one meetings - Ongoing regular direct engagement - Integrated annual reports - Published interim and annual results

Social and relationship capital (continued)

Stakeholder	Why is the stakeholder important to us	Expectations of our stakeholders	Concerns of our stakeholders	Means of engagement
 Contractors and suppliers	We rely on contractors and suppliers to provide reliable products and services that support our offering	- Timely payment - Fair business practices - Enterprise development	- Solvency and liquidity - Meeting contractual obligations - Efficient payment cycles	- One-on-one meetings - Ongoing regular direct engagement
 Customers	Our customers sustain revenue generation and growth	- Project execution and delivery - Quality service - Value for money	- Meeting contractual obligations - Compliance to SHEQ requirements - Security of supply	- Contracts - Ongoing regular direct engagement - Website
 Employees	Our employees underpin our ability to achieve operational performance and strategic objectives	- Engagement - Performance management - Skills development - Remuneration - Health and Safety	- Job security - Sustainability - Incentives and bonuses	- Performance appraisals - Exit interviews - Toolbox talks - Weekly staff newsletters and meetings
 Local communities	Relationships with the communities in which we operate are key to successful project execution and meeting clients' contractual requirements	- Job creation - Compliance - Knowledge transfer and skills training	- Impact on the communities and environment - Site rehabilitation on completion - Work continuity	- Community liaison officers - Engagement with community leaders
 JSE, government and regulators	Provide a licence to operate and a supportive regulatory environment	- Contribution to transformation, enterprise development - Taxation compliance - Compliance with legislation - Adherence to the JSE Listings Requirements and Companies Act	- Job creation - Environmental impact - Socio-economic impact	- Integrated annual report - Published interim and annual results - Audits - Ongoing regular direct engagement

Our relationship with local communities

We recognise that collaborative relationships with local communities are key to efficient project implementation. Our operations by nature have a physical impact on the communities in the areas in which we operate. The execution of projects often requires excavation of land, blasting or temporary infrastructure disruptions such as to roads or water supply that affect residents in these areas. From the initial stages of project planning our priority is to minimise the impact on local communities and rehabilitate sites on completion. Compliance with social and environmental requirements are clearly set out and adhered to. A community liaison officer is appointed for each project to facilitate engagement and in rural regions we set up open lines of communications with community leaders.

Each one of our projects has a positive social impact on the local community. Esor sources labour from the communities where possible, and fosters a transfer of skills through training, supervision and mentoring. In addition, initiatives to uplift communities take place in tandem with the execution of our projects. During the year, we spent R1,3 million on supporting the community in Ackerville, eMalahleni, the area in which Eskom's Kusile Power Station project is situated, by carrying out general upgrades to schools and storm water drains, cleaning road islands and painting bridges. Our financial contribution to CSI is guided by the BEE requirements and our contractual obligations. We take our responsibility as a corporate citizen seriously. Our aim when we reach the end of a project is to have supported and positively impacted the local community.

In addition to contributing to the communities in which we operate, we also support a foundation started by one of our permanent employees. In FY18 we contributed R15 000 to the foundation, which provides school shoes to children at an underprivileged school in the Eastern Cape.

Our role in transformation

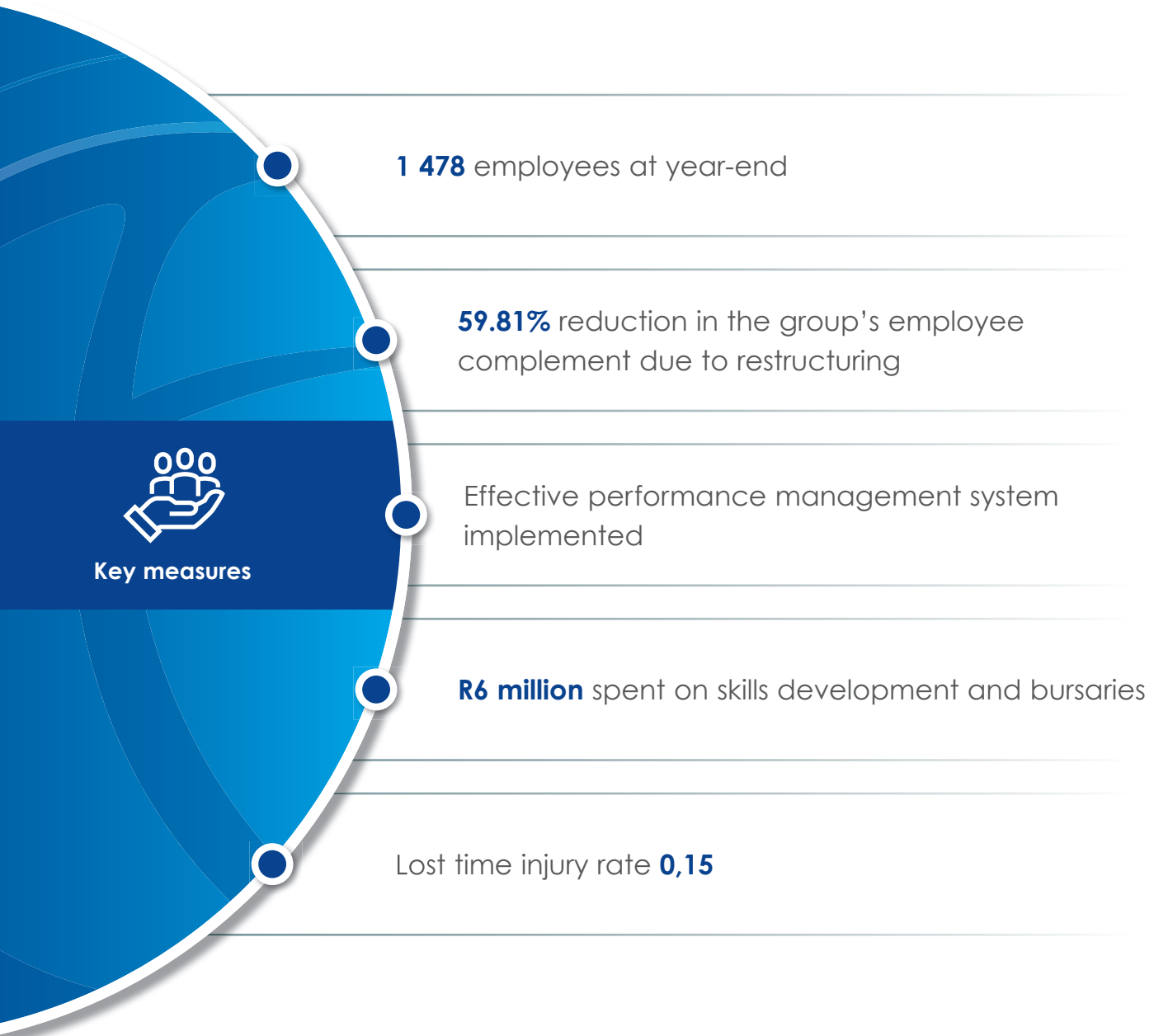
During the year, Esor maintained its Level 3 B-BBEE status, based on the Revised Codes of Good Practice. The group is currently 70,80% black-owned, by shareholders including majority shareholder, Geomer Investments and the Esor Broad Based Share Ownership Scheme, which benefits all permanent staff below executive management level. During the year, we spent R350 000 and continued our support of eight SMMEs within our enterprise development initiative. Esor contributed to the sustainability of these developing businesses by providing grants, assistance with operational processes and providing training.

BEE scorecard

Ownership	21,54/25
Management control	6,53/15
Skills development	13,19/20
Enterprise and supplier development	43,97/40
Socio-economic development	5/5
Total	90,95/105

Human capital

Human capital encompasses our workforce, our people-centred culture aimed at developing and retaining our employees through communication, skills development and performance management and our commitment to safety and health of our people.



Our people

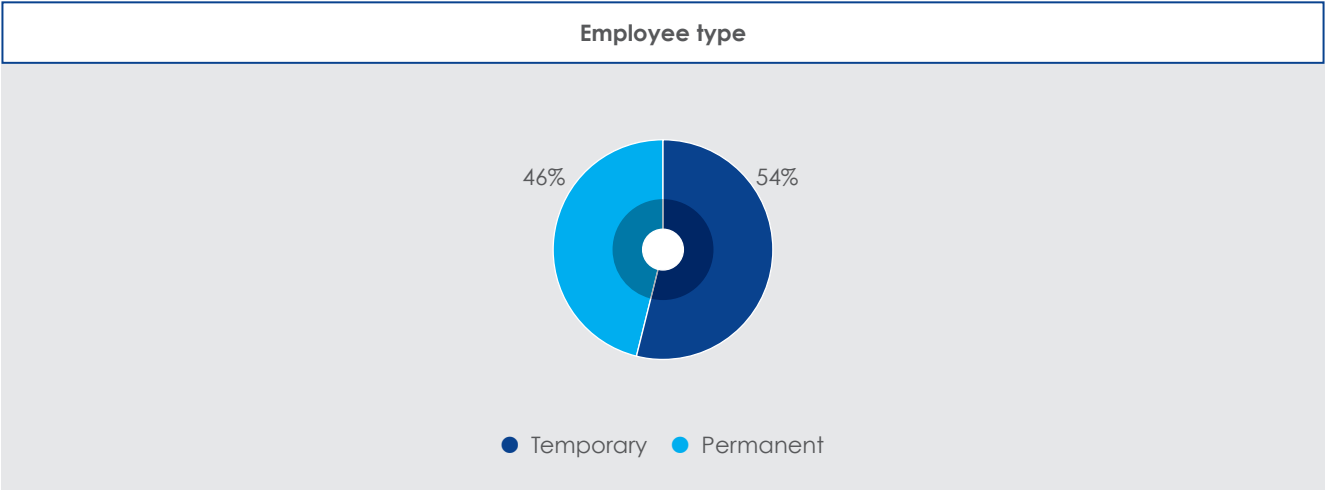
Our people are a core asset of the business, crucial to realising our vision and delivering on our strategy. Their knowledge, skills, commitment and motivation are the foundation of our performance and long-term sustainability. We operate in a sector with an industry-wide skills shortage and consequently, a highly competitive skills market. Attracting, developing and retaining employees is a key strategic focus area that is supported by a sound framework of employment policies and procedures. We have active skills and development programmes and strive to offer an attractive work environment. Executive directors and senior management participate in a long-term incentive scheme. Ad hoc bonuses offer further incentives for key senior management.

The Group HR Manager, Jan Harm Steenkamp, is responsible for employee relations at group level. Jan is assisted at the group office to deliver this function throughout the group,

both in South Africa and cross-border. We do not employ regional support staff and have closed the regional offices in the first restructure during April 2017. There are solid human resources systems in place, including a clear job grading system, standardised job descriptions and a comprehensive performance management programme. Our succession strategy is designed to identify and develop internal talent for future senior management roles through a combination of annual/mid-year psychometric testing and practical succession planning tools in combination with gap analysis and development plans for employees to achieve their personal and career goals. During the year, our refined performance appraisal policy was implemented to enhance development and succession planning.

At year-end, Esor had 1 478 employees, following the retrenchment of 1 017 people (as discussed in the Chairman and CEO's report) in the first half of the year.

Snapshot of our workforce



Human capital (continued)

Employment equity

Ensuring transformation in our workforce is a crucial aspect of managing our human and intellectual resources. Our zero tolerance approach to any form of discrimination is enshrined in the Code of Ethics and Conduct and enforced through disciplinary procedures.

Race and gender targets and progress against the targets

The group has set employment equity targets which are set out on our website www.esor.co.za.

Employment equity breakdown

Our breakdown of employees by gender and ethnicity as submitted to the Department of Labour at 11 December 2017 is set out below. For Employment Equity reporting purposes, any person who has been employed for longer than three months is classified as a permanent employee.

(A detailed employment equity report submitted to the Department of Labour is available on our website at www.esor.co.za.)

Occupational levels	Male				Female				Foreign nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	1	2	1	6	1	1	–	–	–	–	12
Senior management	–	–	2	18	–	–	–	–	–	–	20
Professionally qualified and experienced specialists and mid-management	22	3	3	60	4	–	–	9	2	–	103
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	681	48	8	44	32	–	6	11	32	–	862
Semi-skilled and discretionary decision making	119	19	1	6	25	7	2	11	3	–	193
Unskilled and defined decision making	361	117	–	13	100	30	–	3	3	–	627
Total permanent	1 184	189	15	147	162	38	8	34	40	–	1 723
Temporary employees	109	48	–	4	23	9	2	–	2	–	197
Grand total	1 293	172	15	139	177	41	10	32	41	–	1 920

A African; C Coloured; I Indian; W White.

Employee relations

Sound employee relations are conducive to efficient and effective performance and fostering employee commitment. We regularly engage our employees on all issues of employment. Our open-door policy encourages ongoing dialogue with employees and an anonymous tip-off line provides a further avenue for monitoring employee concerns. Exit interviews are used proactively, as an opportunity to identify areas for improvement in HR. A formal grievance policy is in place.

Esor maintains an open and transparent relationship with all recognised unions and their representatives, upholding every employee's right to belong to a union. A total of 30,82% of the workforce is unionised with the majority represented by NUM with 15% and BCAWU with 14,8% and the remainder represented by SAEWA and MEWUSA. National collective agreements between the Bargaining Council for the Civil Engineering Industry and the unions cover all wage employees. Esor communicates operational changes to employees and their union representatives on seven days' notice in line with requirements.

Skills development

Enhancing engineering and construction industry expertise is vital to Esor's long-term sustainability. We remain committed to advancing our employees' careers and developing our internal skills pool, particularly focusing on previously disadvantaged groups. Further, as a responsible corporate citizen we consider contributing to reducing the industry skills shortage critical.

We strive to develop and motivate our employees through continuous technical skills development, peer-to-peer training, mentoring and on-the-job training. The total skills development spend for the year was R6 million, up from R5,1 million in the previous year. Our annual investment in skills development increased, despite internal financial constraints, to meet new B-BBEE code requirements.

In addition to our ongoing in-house bursary scheme and further education policy, we escalated our contribution to scholarships and bursaries by partnering Go for Gold. The NGO is a collaboration between companies in the Built Environment, the Western Cape Department of Education and civil society that provides students from underprivileged communities the opportunity to enhance their education, secure internships and achieve tertiary qualifications.

Health and safety

Esor operates in an inherently high risk industry. Ensuring the health and safety of our employees as well as the communities in which we operate is a moral and strategic imperative for the group. Providing a work environment in which the risk of harm is minimised is of paramount importance and threats to this are considered key business risks. A detailed risk assessment is undertaken for each project, with specific tasks and risks rated and mitigated accordingly. Esor has established a culture of safety built on a safety framework which defines responsibilities, ongoing training, education, consultation and auditing to ensure compliance.

Esor ensures strict compliance with the Occupational Health and Safety Act, 85 of 1993. Formal SHE policies are in place and are reviewed bi-annually and whenever changes in legislation occur. The Group SHEQ Manager, John Chetty, is responsible for SHEQ at group level, with SHEQ coordinators appointed, and a qualified Health and Safety Officer on each site. During the year, a mentorship programme for safety officers was introduced. We ensure that there is one health and safety representative for every 50 employees. The SHEQ coordinators conduct regular site visits and bi-annual compliance audits are conducted on all sites to ensure SHEQ compliance. Toolbox talks and Daily Safety Task Instruction take place to embed an ethos of heightened awareness and continuous improvement with regard to health and safety. The use of PPE (equipment that protects the user against health or safety risks at work) is closely monitored.

Key SHEQ performance indicators for FY2018:

- Lost time injury rate – 0,15
- Occupational disease rate – 0,00
- Absentee rate – 0,46%
- Fatality rate – 0,00

Esor holds the following safety, quality and environmental accreditations:

- ISO 14001:2015
- ISO 9001:2015
- OHSAS 18001:2007

During the year under review the ISOQAR ISO audits were undertaken with the new ISO standards. No adverse findings were identified. In the Tuboseal business unit the ISOQAR audit was performed for the first time and certification was achieved.

Human capital (continued)

In FY18 health and safety audits were undertaken at the following operations with the results achieved being indicated:

- University of Pretoria – 93,66%
- Claremont – 98,50%
- Khutala – 94,00%
- Casa Mia – 90,50%
- Northern Aqueduct Phase 1 – 96%
- Northern Aqueduct Phase 3 – 96%
- Somerset West Pipecracking – 100%
- Contermanskloof Pipejack – 100%
- Contermanskloof Pipelaying – 100%
- 76S Cleaning – 90%
- Paarl – 100%
- Strand – 100%

Health and safety training for the year included:

- Radiation Safety Training
- Plant and Equipment Operators
- Confined Space Entry
- Confined Space Inspector
- Basic Fire Fighting
- Stacking and Storage
- Supervise Health and Safety on a Construction Site
- Erect and use of Scaffolding
- Inspect access scaffolding
- Flag person
- Handle, transport and storage of hazardous chemical substances
- Lifting Operations
- Working at Heights

- Convey Dangerous Goods
- First Aid Level 1 and 2
- Excavation Supervisor
- Batchplant Operator
- Legal Liability
- Construction Regulations
- Test for flammable substances
- Use and maintenance of small tools and equipment
- HIRA
- Accident Investigation
- Banksman
- SHE Representative

Employee wellness

We believe it is our duty to facilitate good health and safety of employees to foster motivation, capability and productivity. Esor has a wellness programme in place that includes entry and exit medicals for all employees, HIV/Aids training and awareness initiatives such as the drug awareness campaign, which took place in the West Coast region in January 2018. Esor employees also participate in a weekly Action Soccer League, which has been running for the past two years.

Occupational health risks are reviewed quarterly. During the year, an approved inspection authority assessed the risks and hazards at Tuboseal of working with asbestos, and compiled a safety plan accordingly. Occupational hygiene is monitored through monthly self-audits and six-monthly compliance audits. Both Esor Construction and Tuboseal Services were accredited and certified to work with asbestos and related products.

Natural capital

Esor manages its impacts and dependencies on natural capital as part of its commitment to responsible environmental stewardship of its resources and to mitigate the risk of reputational damage.



Key measures

Zero findings on ISO audits

Above **90%** achieved for external environmental audits

Our approach to environmental responsibility

We are committed to minimising our environmental impact and operating in an environmentally responsible manner. Esor's ISO 14001 accreditation provides assurance to company management and employees as well as external stakeholders that environmental impact is being monitored and improved. Environmental risk assessments are carried out regularly and identified risks are tracked. The key environmental risks for the group emanate from dust, spills, noise and fire. Performance is measured against a set of objectives and targets which are updated annually.

There is an environmental officer at each site. The group's environmental policy is communicated to all employees and good practice is regularly highlighted during Toolbox Talks and Daily Safety Task Instruction. During the year, training in fire fighting, conveying of dangerous materials and handling, transporting and storage of hazardous chemicals was provided.

Our environmental policy at a glance:

- Be responsible toward the environment
- Effectively protect natural resources through protection of natural vegetation, rehabilitation of construction sites and management of drainage and runoff water
- Effectively reduce all forms of pollution by reducing, re-using and recycling of all waste
- Contribute to the long-term social economic and institutional developments of all employees and communities within which the operation is located

Monitoring our performance

Key focus areas during the reporting period:

- Reducing the LTIFR to below the threshold of 0,15 – LTIFR at 0,13 at May 2018
- Ensuring that all lifting equipment and tackle is load tested – records kept onsite – calibration records

Natural capital (continued)

- Encourage Near Miss reporting on all sites – awareness communicated to all sites and all staff
- Ensuring that all topsoil is protected – Environmental and Safety Officers monitor on a daily basis
- Encouraging recycling on all sites and offices. Recycling of waste tabled in monthly SHEQ reports (paper, cardboard, steel, plastic, water, fuel, hazardous chemicals, rubble, used oil, waste water, general waste)
- Ensuring that there are no major spills on sites. No major spills were recorded for the current and previous period
- Electricity saving – all staff were encouraged to switch off their office lights when not in the office. Monthly electricity bill monitored
- Hygiene checks – daily hygiene checks are done and recorded on a register on all sites and offices

In addition to ISO 14001 audits, monthly self-audits were conducted by the SHEQ Officers on all sites – no major findings were noted. All minor findings are discussed and resolved in SHEQ meetings with site management. Six-monthly compliance audits were conducted on all sites and no major non-compliances were noted.

During the year the following audits were completed:

Internal audits

- Strand CIPP – 90%
- Somerset West – 92%
- AE Du Toit – 93,42%
- Claremont Clinic – 95,95%
- Western Aqueduct – 90%
- Northern Aqueduct Phase 1 – 92,17%
- Northern Aqueduct Phase 3 – 94,44%
- F46 – 94,09%
- Vuwani – 94,81%
- Kusile – 96,15%
- Khutala – 98,36%

External audits

- ISOQAR accreditation audit conducted in August 2017 – no findings were noted (audited on ISO 9001:2015; ISO 14001:2015 and OHSAS 18001:2007)
- Eskom – 90%
- Eskom – 95,05%

During the year, an environmental policy audit and risk assessment was conducted and areas for improvement are outlined below:

Areas of improvement	Risks	Improvement measures	Responsible person
Waste segregation	■ Pollution ■ Aesthetic environment	■ Awareness training ■ Toolbox Talks ■ Environmental induction ■ Provision of different bins	■ HSE Officer
Permits	■ Fines and penalties ■ Unregistered suppliers	■ Audits ■ Awareness sessions during site visits ■ Request from suppliers	■ HSE Officer
Hazardous chemical substances spills	■ Pollution ■ Infertile soil ■ Fines and penalties	■ Reporting and cleaning of spills ■ Ensure containers are marked accordingly and MSDSs are available ■ Environmental induction ■ Toolbox Talks ■ Use of drip trays under plant and equipment	■ HSE Officer
Service history	■ Air and soil pollution ■ Liaising with workshop to ensure services are up to date and service records are filed on site	■ Audits	■ HSE Officer ■ Plant managers

Responsible use of natural resources

Esor strives to reduce the use of electricity in all buildings through the installation of energy saving light bulbs and the use of energy efficient office equipment. Electricity saving awareness programmes are conducted with all employees encouraging the use of heating and cooling systems only when necessary and switching off lights before leaving offices.

During the year water use by Esor was derived from three rivers, one borehole, ground water and municipal water. The total amount of waste water amounted to 116 885 407 litres, of which approximately 60% was recycled and used for dust suppression.

Operating at environmentally sensitive sites

At a number of Esor's operational sites construction occurs in high biodiversity areas.

This necessitates removal of some plant species. However, all the species of plants affected are in the Least Concerned category under IUCN. In addition, construction results in a reduction of the animal population found in the wetlands and has a negative impact on water quality and resources, soil erosion and the hydrology regime and flooding. Rehabilitation is undertaken by Esor towards the end of the contracts. The process assists in minimising future impacts and reinstating the environments in which the construction occurs to the original conditions.

Esor's impact on protected areas or areas with high biodiversity, is set out below:

Project	Nature of the area	Period of impact
F46 Pipeline	Wetland	2 years
Kusile Power Station	Wetland	1 year
Northern Aqueduct	Wetland	5 years
Klipriver	River and wetland	1,5 years

Managing dust emissions

Dust emissions stem from earthworks and exposed site areas, demolition works, driving on site roads and handling of materials at batching plants and stockpiles. This impacts the local communities by reducing visibility, soiling or contaminating private property or causing health issues. To address this Esor has a number of initiatives in place as set out below:

- Stockpiles and heaps sheltered from the wind
- Traffic slowed down
- Use of water-bowser spraying the surface with water
- Maintaining a standard stockpile height of 1,5 metres
- Covering stockpiles to prevent wind from blowing excavated material around
- Topsoil stockpiling stabilised through seeding and watering
- The cement silos fitted with filter bags to avoid dust generation during the filling of silos

- Site roads, sprayed with water, as and when needed
- Material from the construction operation is stockpiled onsite at the demarcated area

Reducing hazardous spills

Esor strives to reduce spills on each contract to zero. Regrettably in the year under review, an oil leak from a crane occurred. As a result of the spill, risk assessments were revised and a renewed awareness on spills was communicated to all crane operators and employees.

Reducing carbon emissions

Esor's carbon emissions come from exhaust fumes from plant and machinery and the use of appliances at offices and sites. In an effort to reduce emission Esor uses energy saving bulbs, energy efficient office equipment, makes use of generators onsite and ensures up to date service and maintenance is conducted on plant and equipment.

Natural capital (continued)

Use of materials and waste management

Esor's use of renewable and non-renewable materials for the year is outlined below:

Renewable resources

Paper	7 240 kg
Water	118 574 231 litres
Glass	0 kg
Used oil	14 785 litres
Steel	2 850 kg

Non-renewable resources

Hazardous materials	433 884 kg
General waste	935 445 kg
Rubble	1 224 568 kg
Plastic	6 368 kg
Fuel used	4 298 292 litres
Waste water	239 045 litres

Esor is committed to responsible and efficient waste management practices. A total of 433 884 kg of hazardous waste was transported by accredited service providers during the year.

Non-hazardous waste for the year included:

Waste	Weight
Glass	0 kg
Plastic	6 348 kg
Steel	2 850 kg
Paper	7 240 kg
Rubble	1 271 208 kg
General waste	876 704 kg

No compliance inspections by environmental regulators took place during the year and no incidences of non-compliance with environmental laws were identified.

Planned future focus areas:

- Training of environmental officers in horticulture to assist with rehabilitation on sites
- Further reduce the LTIFR from 0,13 to 0,10
- Maintain zero occupational diseases
- Receive maximum rebates from FEM by having zero lost time injuries

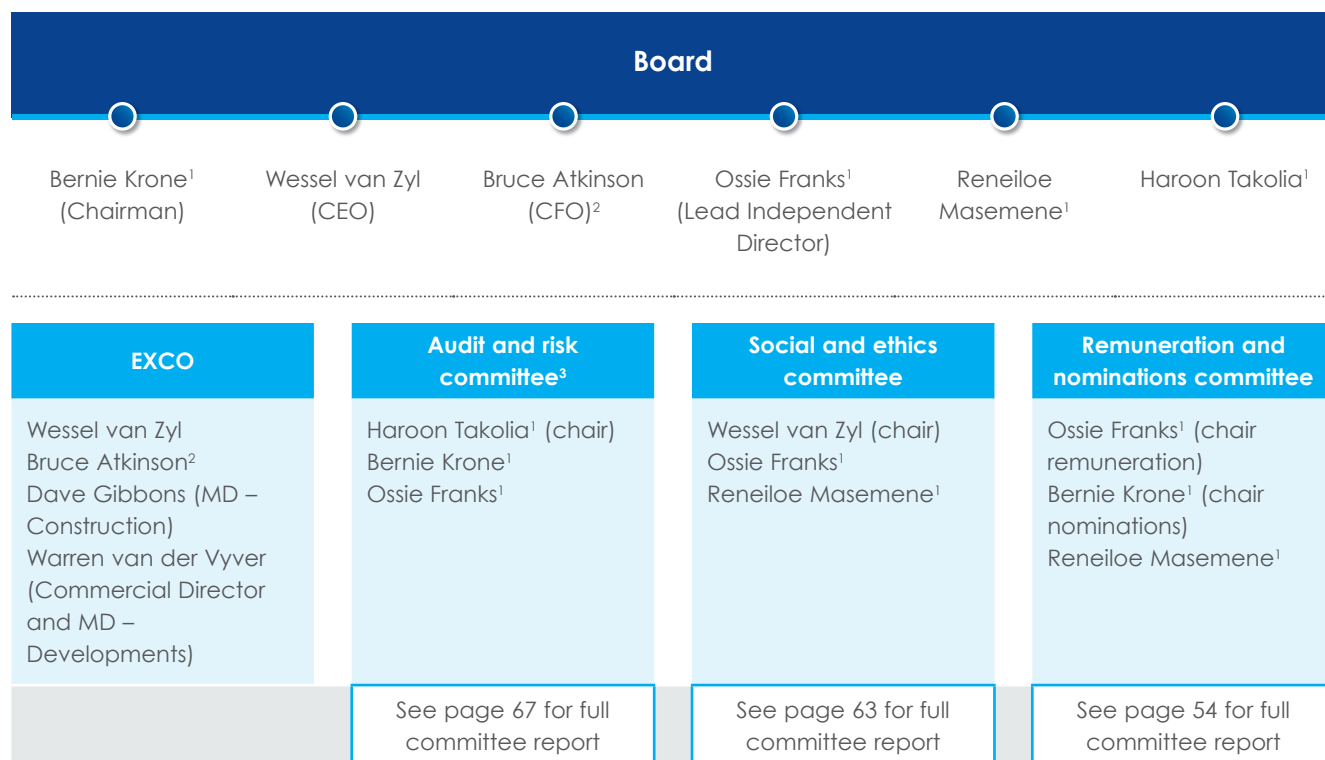


Governance

- 46 *Corporate governance*
- 51 *Risk report*
- 54 *Remuneration report*
- 63 *Social and ethics committee report*

Corporate governance

Governance structure at 28 February 2018



1. Independent non-executive director.

2. Bruce Atkinson resigned post year-end effective 29 May 2018.

3. See page 67 for clarification on membership of the committee.

Governance structure – subsidiaries

A formal governance framework is in the process of being put in place between the company as holding company and its operating subsidiaries. The board fully recognises the separate legal existence of each subsidiary as well as the statutory and fiduciary duties of the directors of such subsidiaries. The audit and risk committee as well as the social and ethics committee fulfil oversight functions also in respect of relevant subsidiaries. Group policies are applied in all subsidiaries unless regarded as not being in the interest of a subsidiary in which event the directors of the subsidiary may recommend appropriate amendments to such policy.

Ethical leadership and corporate citizenship

We endeavour to uphold the highest standards of ethics, transparency and good governance in the interests of all stakeholders and adopt stringent compliance practices. The board is the ultimate guardian of the group's governance, ethics and values and is supported in this regard by the social and ethics committee. Our policies, procedures and Code of Ethics and Conduct as well as

disclosure standards are regulated by the Companies Act, JSE Listings Requirements and King IV and are guided by international best practice.

Esor has a code of ethics in place which is applicable to all employees, including the board of directors. The code is based on the Esor values of unity, integrity, commitment and accountability. The ethical standards are embedded in the processes for recruitment, evaluation of performance and reward of employees as well as the sourcing of employees.

The social and ethics committee is tasked with ensuring that the group's ethics are managed effectively. In addition to monitoring adherence to the Code of Ethics, the social and ethics committee is responsible for oversight of organisational ethics. Relevant sanctions and remedies will be consistently applied when ethical standards are breached.

A whistle-blowing mechanism through the Be Heard Fraud Hotline is in place to assist with the identification of possible unethical behaviour. The hotline is monitored

through ongoing reporting and managed by the Group Risk Manager by ensuring that reports are closed, and where applicable forwards reports to the audit and risk committee.

Ongoing training is provided on a biannual basis for Competition Commission compliance for all relevant employees and management in the procurement and commercial departments, and monitored by the Group Risk Manager.

Each new appointment receives a comprehensive recruitment pack with all policies.

Future focus areas are as follows:

- Fraud hotline consultations to be rolled out
- Ongoing monitoring and adherence to the code of conduct, ethical leadership and compliance
- Continuation of the incorporation of the principles of King IV

The board charter commits the board to effective and ethical leadership. The board is also committed to the highest standards of good corporate governance. In addition to fulfilling their statutory and fiduciary duties, all members of the board are expected to display the characteristics of integrity, competence, responsibility, accountability, fairness and transparency. The chair of the board is required to monitor the behaviour of board members in this respect.

The board

Esor's unitary board comprises six directors with the majority being independent non-executive directors. With legal, financial and engineering experience represented amongst the independent non-executive directors, complementing the extensive skills and experience of the chairman and executive directors, the board has an appropriate mix of knowledge, skills and experience. The composition of the board also introduces the required element of diversity and independence. The board is therefore comfortable with its composition under current circumstances and considering the challenges faced by the business.

The board fully appreciates that it is first and foremost accountable for the application of corporate governance principles and practices in Esor. It further understands that its key functions are to set the strategic direction of the group, to approve appropriate policies and plans to give

effect to the approved strategy, to delegate implementation of the foregoing to management and adequately monitor management's performance and to ensure accountability through reporting and the principle of transparency. The role and functions of the board are set out in the board charter and also incorporated into the board's annual workplan. The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

The board is deeply aware of the expectation for value creation across various elements of the business and any discussions of strategy, risk and opportunities, as well as the business model and performance are based on the prerequisite for long-term sustainability and sustainable development. This is also within the context of the difficult market and trading conditions faced by the construction industry over an extended period of time.

The board sets key performance measures and targets in order to continuously monitor and assess the achievement of strategic objectives and agreed plans for value creation over the short, medium and long term. Management is expected to implement and execute on the approved strategy and business plans. Management is further expected to continually assess and respond, in a responsible manner, to the negative consequences of the group's activities and outputs in all areas of the business.

The board has a particular focus on the general viability of the business and its status as a going concern. For this reason, the solvency and liquidity of the company is monitored on a continuous basis.

The notice period of the CEO and executives in terms of their employment contract is three months. There are no other conditions relating to termination of employment of all executives which are not standard employment conditions in the group.

The nominations committee continues to play an active role in assessing the board composition and identifying appropriate candidates for appointment to the board. To this end, the nominations committee assisted the board in the appointment in November 2017 of Haroon Takolia, a Chartered Accountant by profession, who brings with him a wealth of experience.

None of the independent non-executive directors have served on the board for longer than nine years, except for

Corporate governance (continued)

the non-executive chairman of the board, Bernie Krone, who has been categorised as independent since August 2017. Bernie Krone has been on the board since listing in 2006 and has fulfilled the role of chairman since August 2014 after serving for a number of years as CEO of the group.

Oswald Franks serves as lead independent director and his main responsibilities include:

- leading in the absence of the chairman
- serving as sounding board for the chairman
- acting as intermediary between the chairman and other board members, when necessary
- strengthening independence of the board
- leading the assessment of the performance of the chairman

Performance evaluations of committees and board

Performance evaluations of the board as well as all committees were undertaken during the financial reporting period and were facilitated externally through a formal evaluation. The board is of the view that the evaluation process is effective.

Limits of authority

The board has the authority to exercise all of the powers and perform any of the functions of the company, except as otherwise provided in the Companies Act of 2008 or the Memorandum of Incorporation of the company. Specific authority and powers of the board have been delegated to management and such delegation is captured in a formal delegation of authority framework that is reviewed by the board on a regular

basis. The board is comfortable and satisfied that this framework contributes to role clarity and the effective exercise of authority and responsibilities.

Board committees

The board delegates certain functions to the board committees as set out in the governance structure on page 46. Each committee has a minimum of three members as recommended by King IV. The composition of each committee is also aligned with the recommendations of King IV except for the composition of the audit and risk committee, where the chairman of the board serves as a member of the committee. The other members of the audit and risk committee are both independent non-executive directors. The reason for the chairman of the board serving on the audit and risk committee is the limited number of independent non-executive directors and the particular areas of expertise of each director. The board is further of the opinion that the extensive experience of the chairman of the board in the business of the group outweighs the potential downside of the chairman acting as a member of this committee. The board is comfortable that the current composition of the audit and risk committee contributes to its effectiveness in fulfilling its duties. This position is monitored on a continuous basis and will be reassessed should the board be able to appoint additional directors in due course, depending on the financial status of the company.

The board is also comfortable that the current composition of the board committees contributes to effective collaboration as well as a balanced distribution of power so that no individual has the ability to dominate decision-making and no undue reliance is placed on any individual.

Board and committee meeting attendance

	Board	Audit and risk	Remuneration and nominations	Social and ethics
B Krone	4/4	4/4	2/2	n/a
OWS Franks	4/4	4/4	2/2	2/2
R Masemene	3/4	2/2	2/2	1/2
H Takolia	1/1	1/1	n/a	n/a
HJ Sonn	3/3	3/3	n/a	n/a
WC van Zyl	4/4	4/4*	2/2*	2/2
BW Atkinson	4/4	4/4*	2/2*	2/2*

* Invitee.

Gender and racial diversity

Esor supports the principles and aims of gender and racial diversity at board level. No voluntary target has been set but should a vacancy on the board arise, the board is required to give consideration to the appointment of female directors so as to attain and maintain a level of gender diversity within the board. Following the resignation of Heather Sonn, due to other business obligations, the board currently comprises only one female director, and it will be a focus area of the board going forward to recruit an additional black female to the board.

50% of the directors are black which is in line with the stated policy target of at least 50% of the board members being black.

The remuneration and nominations committee reviews the gender and racial diversity targets and fulfilment thereof annually. The social and ethics committee further assists in ensuring that employment policies are in place, adhered to and reported on in achieving the employment targets as set in the labour plans.

Company secretary

iThemba Governance and Statutory Solutions (Pty) Limited is the appointed company secretary. The informal review was conducted in order to assess iThemba's experience, whether it has personnel with the relevant qualifications and skills to advise directors in terms of the JSE Listings Requirements, King IV and other applicable laws and whether an arm's length relationship exists with the company.

iThemba is represented by Elise Beukes (BProc). She has broad experience in all aspects of commercial law, having spent three years in both litigation and commercial practice as an admitted attorney and four years as corporate legal counsel. Accordingly the board is satisfied that the company secretary has the requisite knowledge, experience and qualifications to effectively fulfil the role of company secretary. Ms Beukes was on maternity leave for a period during the year. While on leave, iThemba was represented by Ms Natalie Abrahams and/or by Ms Annamarie van der Merwe.

In accordance with the requirements of the Companies Act and JSE Listings Requirements, as read with King IV, none of these representatives is a director of the company and therefore has an arm's length relationship with the board.

The company secretary is responsible for monitoring changes and developments in corporate governance and, together with the executive directors, for keeping the board updated in this regard. The board reviews any changes and appropriate measures are implemented to ensure compliance. The company secretary, in conjunction with the CFO and Group Risk Officer, ensures the company complies with all current and applicable regulations and legislation. In doing so they liaise closely with the company's sponsor.

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

Based on the collective governance experience of the iThemba team, the board has access to extensive governance support and guidance at all times. The performance of the company secretary is also assessed on a regular basis as part of the board assessment process. No major issues of concern have been identified.

The company secretary is appointed and removed by the board. All directors have access to the advice and services of the company secretary and to company records, information, documents and property in order to participate meaningfully in board meetings.

The certificate required to be signed in terms of section 88 of the Companies Act appears on page 66 of the annual financial statements.

Internal control

Due to the inherent limitations of any system of internal control, the systems are designed to manage rather than eliminate risk. These limitations include circumventing of controls or human error. As a result, absolute assurance cannot be provided. The systems are designed to provide only reasonable assurance as to the integrity and reliability of the financial statements, and further to safeguard and maintain accountability of the group's assets. The systems should also identify and curtail significant fraud, potential liability, loss and material misstatement while complying

Corporate governance (continued)

with applicable statutory laws and regulations. The group continually seeks to improve the systems and controls in place.

External audit

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

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

Legal compliance

The board is ultimately responsible for ensuring compliance with laws and regulations. New legislation that impacts the company is discussed at board meetings. The group risk officer, along with the executive management (CFO) and the company secretary, assists in this regard using a compliance checklist.

Technology and information governance

Overview

FY18 has been a year of transition for the Esor ITSS department where the focus has been on protecting information. Technology has changed from securing the perimeter to securing the endpoint. We are aware that devices will be lost or stolen and that our responsibility is to ensure that the information remains secure.

Governance

The need for a well-governed technology and information function is becoming more apparent as business leaders are forced to critically evaluate their cost and value chains in challenging economic environments. Additionally, their compliance, audit, risk and security environments are becoming the focus of attention in a world where regulatory compliance can fundamentally impair or enable the operations of a business. Esor formed a technology and information steering committee to ensure that technology and information expenditure remains transparent, in line with business requirements and remains

compliant with King IV, POPI, company policies, and local/international laws.

The board receives an annual update on technology and information risks from the CIO. All risks presented in the year were deemed to be within defined tolerance levels and not considered material. These included:

- Business continuity
- Prolonged downtime
- Back-up and offsite storage
- Security of network and devices
- Policies on:
 - BYOD ("Bring your own device to work")
 - Electronic communications and social media
- Corporate governance compliance
- Protection of Personal Information ("POPI")

Security

We have implemented a holistic layered approach to security implementing multiple preventive measures. These include centralised controls for hardware, software auditing and patch management. We have deployed various security advancements to encrypt and secure data on company devices. Esor has launched an internal awareness campaign to educate staff about the dangers of social engineering.

Cost management

Esor have migrated core email and document storage to a secure online platform to provide better redundancy and higher availability for the users. This, in turn, has allowed for a reduction of on-premises IT infrastructure lowering operational and capital expenditure. Esor has maintained 100% software licence compliance for all major vendors. In addition applications such as Skype For Business have been introduced to reduce travel costs and improve communication throughout the organisation.

Planned areas of future focus

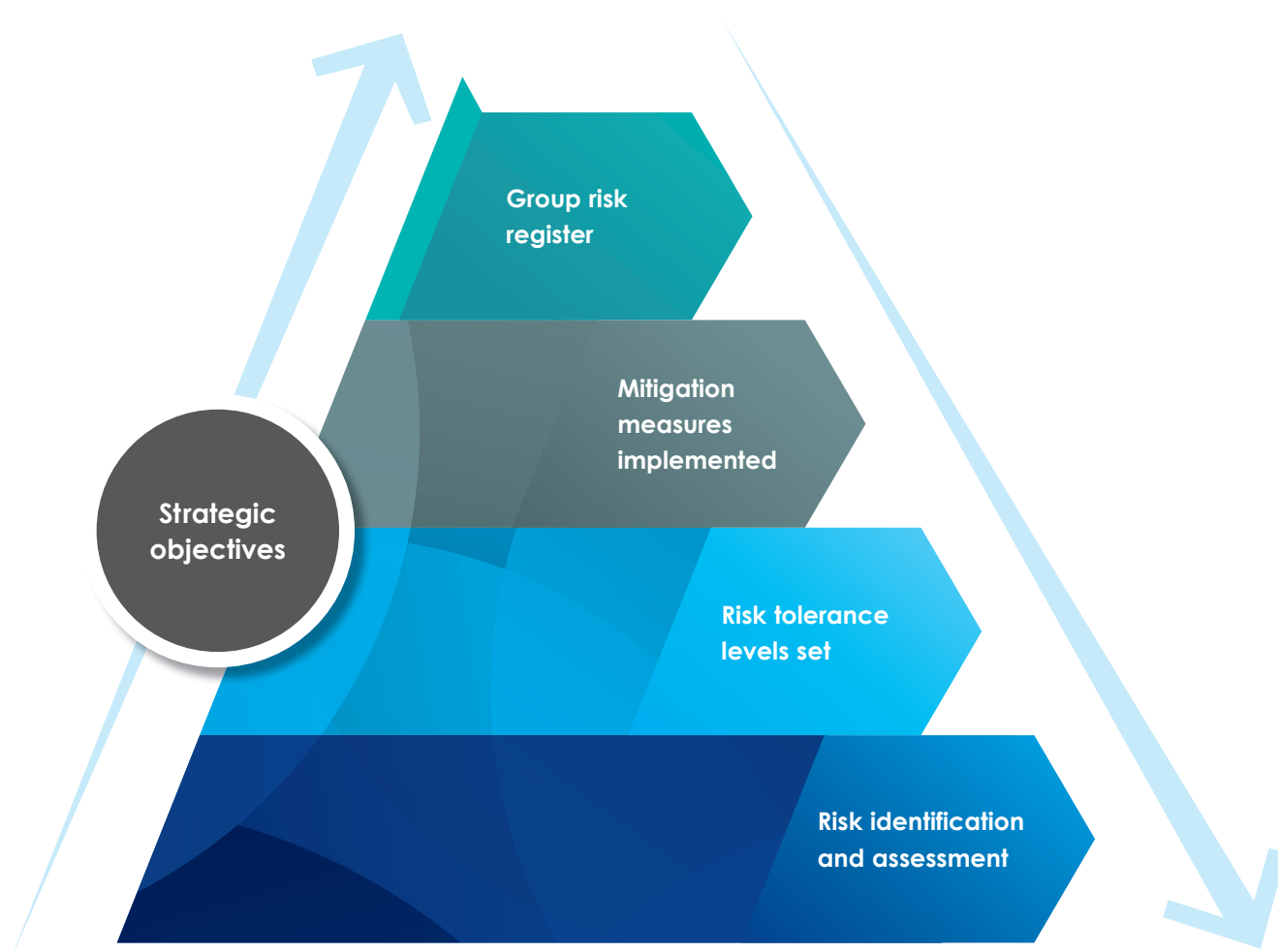
Our focus is to provide more training to staff to ensure that we maximise the return on investment, improve productivity and the users' experience. Our goal is to reduce on-premises infrastructure to minimise failure points and risk. We plan to roll out new tools to upgrade our end-point protection and to better cater for all devices including personal devices ("BYOD").

Risk report

A risk management process is in place for identifying, evaluating and monitoring the nature and extent of risks affecting our business guided by the risk management policy. Risk is assessed on an ongoing basis in a “bottom-up and top-down” approach.

Ultimately the board is responsible for risk management, supported by the audit and risk committee. The Group Risk Officer reports to the audit and risk committee on adherence to the risk management policy and is responsible for monitoring the group's risk register.

Risk management framework



Risk report (continued)

Structure	Responsibility	FY2018 risk activity
Board	- Internal control - Approving acceptable risk levels and appetite - Approving limits for cash flow, revenue, debtors days, PBT, contract profitability, BEE level and safety metrics	The board reviewed and approved limits of authority, top 10 risks, significant litigation and claims, BEE performance and financial and contract performance.
Audit and risk committee	- Developing the integrated risk management strategy for board approval - Assisting the board in setting the levels of risk tolerance - Communicating the relevant aspects, guidelines, instructions and recommendations across the group - Reviewing and recommending for board approval the: - Integrated risk management strategy - Code of Ethics and Conduct and any corporate citizenship policies - Risk register as prepared by management, focusing on financial, IT, fraud and reputational risks in addition to operational and other business risks - Internal audit reports detailing the effectiveness of risk management - Compliance with legal and regulatory provisions and the company's Memorandum of Incorporation - Cases of employee conflicts of interest, misconduct or fraud	The committee reviewed, commented on and approved all policies and strategies as per the committee's work plan that is structured to ensure a systematic and complete review process is in place. The committee also monitored the nature of the risks that are being mitigated through the implementation of the various internal financial controls. The committee continually reviewed the going concern assumptions applicable to the group with particular reference to liquidity. The committee received correspondence from the JSE in terms of proactive monitoring – a response was issued by the company and the matter closed within 30 days. Rotation of the designated audit partner took place in 2017. The board together with the audit and risk committee is satisfied with the independence of KPMG as external auditors and with SG Robinson in his second year tenure, as the designated audit partner.
CEO; CFO	Monitoring internal controls, internal audit	Ongoing per audit plan.
Group Risk Officer	- Monitoring and reviewing the group's risk register, any incidence or risk of fraud, the whistle-blowing hotline, insurance exposure and any legal disputes - Reporting quarterly to the audit and risk committee - Attending monthly Exco meetings	The Risk Manager monitored and reported to the audit and risk committee all items required in terms of the risk management policy.

Structure	Responsibility	FY2018 risk activity
Internal Audit – external consultant 3KC Enterprises and Consulting (Pty) Limited – the internal audit charter defines the scope of the function	■ Internal audit ■ Reporting to the audit and risk committee with full and free access including regular meetings with the committee chairperson and other members ■ 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 Esor's activities and internal audit work ■ Being responsive to Esor's changing needs, striving for continuous improvement and monitoring integrity	Internal Audit reported on the following areas: ■ Entity level controls ■ Project performance ■ Wage controls ■ Procurement and payables controls All areas of concern were adequately and immediately addressed with follow-up reviews conducted to ensure controls are being implemented and functioning as intended.

Remuneration report

Part 1 Background statement

The remuneration and nominations committee assists the board in ensuring that group remuneration and recruitment is aligned with overall business strategy, including enabling Esor to attract and retain key skills. A formal terms of reference is in place setting out the committee's role and responsibilities, which include devising a remuneration policy. The policy is tabled at the annual general meeting for a non-binding advisory vote by shareholders. In the event of 25% or more of shareholders voting against the non-binding advisory votes, the board undertakes to engage actively with dissenting shareholders in order to address all legitimate and reasonable objections and concerns.

Key areas of focus for the remuneration and nominations committee during the year:

- Ensuring appropriate retention plans are in place in times of uncertainty
- Approval of recommended share incentive allocation
- Adopting a share scheme with wider allocations to site-level

Esor uses the services of PWC for salary surveys, benchmarking and job evaluation and grading.

The committee is satisfied that the policies adopted and procedures in place are effective in recruiting and retaining senior staff resources taking into account the economical and political climate.

At the annual general meeting on 30 June 2017, the non-binding advisory vote on the company's remuneration policy received a 100% vote in support of the policy.

The following members served on the remuneration and nominations committee during the 2018 financial year:

Independent non-executive directors

- Dr Oswald Franks (Chair remuneration committee)
- Bernie Krone (Chair nominations committee)
- Reneiloe Masemene

The committee met four times during the year and details of meeting attendance are set out on page 48.

During the year the committee:

- Reviewed and recommended executive remuneration for board approval
- Reviewed and recommended non-executive directors' fees for shareholder approval

- Considered and recommended an annual increase in salary bill for approval by the board
- Monitored the organisation's transformation and employment equity targets
- Confirmed the group employee retirement funding as well as healthcare benefits
- Approved the allocations of long-term incentive awards to key employees and high performers
- Endorsed the short-term incentive scheme for executives

Part 2 Overview of remuneration policy

A remuneration policy is in place and a full copy is available on our website www.esor.co.za.

Our remuneration policy is focused on ensuring we attract and retain the required qualified and technical specialists needed in order to achieve sustainable long-term performance. Therefore our remuneration philosophy is to "Buy", "Build", "Bind" the required skills in a highly competitive environment, and "Bounce" (underperforming employees).

We aim to achieve the appropriate balance between short and long-term rewards allocating a portion of the shareholder value created during any financial year to the executives. Our policy is to remunerate all competent performing employees between the 50th and 75th percentiles, ensuring they are properly benchmarked within their respective disciplines. Benchmarking parameters are applied based on the Paterson grading guidelines.

The group's executives are remunerated in terms of a cost to company or guaranteed package and are further incentivised for performance against a defined weighted average cost of capital ("WACC") parameter on a modified EVA model. Remuneration packages are calculated on total cost of employment, which comprises:

- Basic salary
- Travel allowances
- Contribution to retirement funding and risk benefits
- Company contribution to healthcare

The fixed cost remuneration package is maintained at competitive levels, while no upper limit on performance bonuses is applied given the balanced scorecard explained below. The performance of the executive and divisional Exco are measured against key performance areas which are weighted on a scale of one to five and based on priorities and importance aligned to:

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

The payment of annual performance bonuses under the Esor short-term incentive scheme is structured to ensure that the shareholders receive the targeted return on their investment and is contingent on the achievement of "super profits" in excess of returns based on the WACC. The threshold for determining the executive bonus pool to be allocated is determined on actual PBT against the benchmarked returns based on WACC. In all cases, the payment of awarded bonuses to executive directors and group executive management is only made if, and when, there is sufficient cash available to do so. No performance bonuses were declared during the year.

Long-term incentive scheme

At the annual general meeting on 26 June 2015 shareholders approved a long-term incentive plan, namely the Esor Limited Share Plan ("the Plan"), for selected employees including executive directors in line with global best practice. The Plan provides the participants with the opportunity to receive shares in the company in the form of restricted shares and/or conditional rights to shares in the form of performance shares, thereby allowing them to share in the success of the company and providing direct alignment with shareholders' interests.

The shares cannot be disposed of prior to the vesting date and are subject to forfeiture and disposal restrictions until then. The award of performance shares provides participants with a conditional right to receive shares at the end of the performance period provided that performance and employment conditions have been met.

The share allocation performance/vesting period is linked to a three-year cycle resulting in full vesting in year three. The Plan is primarily used as an incentive to employees to deliver the group's business strategy over the long term as well as serving to attract prospective employees.

The initial award was made in February 2016. The allocation to executives is based on an award of 75% performance shares and 25% retention shares, which is aligned with shareholder value creation. The allocation to other

participants is weighted towards retention shares and performance shares in line with the impact of those individuals in creating value.

This allocation functions on a sliding scale towards 25% performance shares and 75% retention shares.

The number of performance shares and/or restricted shares awarded to participants will primarily be based on the participant's annual salary, grade, performance, retention and attraction requirements and market benchmarks. The award levels will be decided by the remuneration and nominations committee each time awards are granted, by taking into account the particular circumstances at that time. Annual allocations will be benchmarked and set to a market-related level of remuneration while considering the overall affordability thereof to the company.

General remuneration practices

The group subscribes to the generic conditions of employment and wage rates for hourly paid employees as gazetted in a Sectoral Determination and in collective bargaining agreements. Most conditions of employment are therefore already standardised. The HR Manager oversees employee grading and salary industry benchmarking.

All permanent salaried employees are members of the group nominated retirement fund administered by NMG Consultants and Actuaries. 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 and Bonitas are the group's healthcare service providers and employees have freedom of choice with respect to the specific plan. NMG Consultants and Actuaries has been appointed as the intermediary between the healthcare provider and members.

Executive and employee contracts of employment

All permanent appointments are subject to the signing of a standard conditions of employment contract. The retirement age is currently set at 65 for all employees.

The notice periods are as follows:

- Executives – three months
- Salaried staff – one month

Remuneration report (continued)

Part 3 Implementation report

Prescribed officers

The remuneration of prescribed officers (excluding Esor's executive directors) for the year ended 28 February 2018 is set out in the summary below.

2017 (March 2017 to February 2018)	Salary R'000	Pension fund contri- butions R'000	Cash incentives R'000	Cash- based LTI – accrued/ earned/ reflected R'000	Share- based LTI – Restricted Share Awards ¹ R'000	Share- based LTI based on company ² R'000
Executive directors						
Current						
Wessel Cornelius van Zyl	2 957	410	–	N/A	68	102
Retired/Separated/Resigned						
Bruce Wayne Atkinson	1 783	132	–	N/A	28	42
Prescribed officers						
Current						
David Gibbons	2 165	349	–	N/A	57	85
Warren Clifford van der Vyver	1 875	217	–	N/A	28	42
Retired/Separated/Resigned						

Foot note: Other benefits – reimbursement/km.

1. Share-based LTI – accrued/earned/reflected – Restricted Share Awards: Share price at award date 1 July 2017 at 0,26 cents.

2. Share-based LTI – accrued/earned/reflected – Performance-based on company performance: Share price at award date 1 July 2017 at 0,26 cents.

3. Share-based LTI – accrued/earned/reflected – Performance-based on relative total shareholder return ("RTSR"): Share price at end of condition period 1 July 2017 at 0,26 cents.

2016 (March 2016 to February 2017)	Salary R'000	Pension Fund Contri- butions R'000	Cash Incentives R'000	Cash- based LTI – accrued/ earned/ reflected R'000	Share- based LTI – Restricted Share Awards ¹ R'000	Share- based LTI based on Company ² R'000
Executive directors						
Current						
Wessel Cornelius van Zyl	2 870	398	189	N/A	–	145
Retired/Separated/Resigned						
Bruce Wayne Atkinson	1 723	129	107	N/A	–	66
Prescribed officers						
Current						
David Gibbons	2 109	339	141	N/A	–	124
Warren Clifford Van der Vyver	1 819	211	117	N/A	–	68
Retired/Separated/Resigned						

Foot note: Other benefits – reimbursement/km.

1. Share-based LTI – accrued/earned/reflected – Restricted Share Awards: No allocation of restricted shares was made.

2. Share-based LTI – accrued/earned/reflected – Performance-based on company performance: Share price at award date 1 July 2016 at 0,26 cents.

3. Share-based LTI – accrued/earned/reflected – Performance-based on relative total shareholder return ("RTSR"): Share price at end of condition period 1 July 2016 at 0,26 cents.

Share-based LTI based on RTSR ³ R'000	Other benefits R'000	Termination/separation benefits R'000	Malus/claw back and forfeiture of prior awards R'000	Total single figure of remuneration R'000	Less: Amounts accrued but not yet settled R'000	Add: Cash value of prior year accruals not settled R'000	Adjustment for market movements R'000	Total cash equivalent value of remuneration R'000
118	63	–	–	3 718	(288)	–	–	3 430
54	44	–	–	2 083	(125)	–	–	1 958
101	105	–	–	2 861	(243)	–	–	2 618
54	71	–	–	2 288	(125)	–	–	2 163

Share-based LTI based on RTSR ³ R'000	Other benefits R'000	Termination/separation benefits R'000	Malus/claw back and forfeiture of prior awards R'000	Total single figure of remuneration R'000	Less: Amounts accrued but not yet settled R'000	Add: Cash value of prior year accruals not settled R'000	Adjustment for market movements R'000	Total cash equivalent value of remuneration R'000
144	77	–	–	3 823	(289)	–	–	3 534
62	43	–	–	2 130	(128)	–	–	2 002
124	93	–	–	2 929	(248)	–	–	2 681
62	58	–	–	2 335	(130)	–	–	2 205

Remuneration report (continued)

	Grant date 2017	Strike price 2017	Opening number of awards shares 2017	Awards granted shares 2017
Wessel Cornelius van Zyl				
2015 Restricted Share Awards	2015/07/01	–	875 000	–
2015 Performance Shares based on Company Performance	2015/07/01	–	437 500	–
2015 Performance Shares based on RTSR	2015/07/01	–	437 500	–
2016 Restricted Share Awards	2016/07/01	–	–	–
2016 Performance Shares based on Company Performance	2016/07/01	–	–	437 500
2016 Performance Shares based on RTSR	2016/07/01	–	–	437 500
2017 Restricted Share Awards	2017/07/01	–	–	–
2017 Performance Shares based on Company Performance	2017/07/01	–	–	–
2017 Performance Shares based on RTSR	2017/07/01	–	–	–
Total				
Bruce Wayne Atkinson				
2015 Restricted Share Awards	2015/07/01	–	375 000	–
2015 Performance Shares based on Company Performance	2015/07/01	–	187 500	–
2015 Performance Shares based on RTSR	2015/07/01	–	187 500	–
2016 Restricted Share Awards	2016/07/01	–	–	–
2016 Performance Shares based on Company Performance	2016/07/01	–	–	200 000
2016 Performance Shares based on RTSR	2016/07/01	–	–	200 000
2017 Restricted Share Awards	2017/07/01	–	–	–
2017 Performance Shares based on Company Performance	2017/07/01	–	–	–
2017 Performance Shares based on RTSR	2017/07/01	–	–	–
Total				
David Gibbons				
2015 Restricted Share Awards	2015/07/01	–	750 000	–
2015 Performance Shares based on Company Performance	2015/07/01	–	375 000	–
2015 Performance Shares based on RTSR	2015/07/01	–	375 000	–
2016 Restricted Share Awards	2016/07/01	–	–	–
2016 Performance Shares based on Company Performance	2016/07/01	–	–	375 000
2016 Performance Shares based on RTSR	2016/07/01	–	–	375 000
2017 Restricted Share Awards	2017/07/01	–	–	–
2017 Performance Shares based on Company Performance	2017/07/01	–	–	–
2017 Performance Shares based on RTSR	2017/07/01	–	–	–
Total				
Warren Clifford van der Vyver				
2015 Restricted Share Awards	2015/07/01	–	375 000	–
2015 Performance Shares based on Company Performance	2015/07/01	–	187 500	–
2015 Performance Shares based on RTSR	2015/07/01	–	187 500	–
2016 Restricted Share Awards	2016/07/01	–	–	–
2016 Performance Shares based on Company Performance	2016/07/01	–	–	200 000
2016 Performance Shares based on RTSR	2016/07/01	–	–	200 000
2017 Restricted Share Awards	2017/07/01	–	–	–
2017 Performance Shares based on Company Performance	2017/07/01	–	–	–
2017 Performance Shares based on RTSR	2017/07/01	–	–	–
Total				

Awards forfeited/ lapsed shares 2017	Awards vested shares 2017	Closing number of award shares 2017	Value of award on grant date 2017	Fair value of the award on grant date 2017	Cash value on settlement during the year 2017 R'000	Closing estimate fair value at year-end 2017
–	–	875 000	245 000	341 000	–	280 000
–	–	437 500	122 500	85 000	–	140 000
–	–	437 500	122 500	85 000	–	140 000
–	–	–	–	–	–	–
262 500	–	175 000	148 750	85 000	–	56 000
262 500	–	175 000	148 750	85 000	–	56 000
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
			420 000	256 000	252 000	
–	–	375 000	105 000	146 000	–	120 000
–	–	187 500	52 500	37 000	–	60 000
–	–	187 500	52 500	36 000	–	60 000
–	–	–	–	–	–	–
120 000	–	80 000	68 000	39 000	–	25 600
120 000	–	80 000	68 000	39 000	–	25 600
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
			346 000	297 000	291 000	
–	–	750 000	210 000	292 500	–	240 000
–	–	375 000	105 000	73 000	–	120 000
–	–	375 000	105 000	73 000	–	120 000
–	–	–	–	–	–	–
225 000	–	150 000	127 500	73 000	–	48 000
225 000	–	150 000	127 500	73 000	–	48 000
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
			675 000	585 000	576 000	
–	–	375 000	105 000	146 000	–	120 000
–	–	187 500	52 500	37 000	–	60 000
–	–	187 500	52 500	37 000	–	60 000
–	–	–	–	–	–	–
120 000	–	80 000	68 000	39 000	–	26 000
120 000	–	80 000	68 000	39 000	–	26 000
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
			346 000	297 000	291 000	

Remuneration report (continued)

	Awards granted shares 2018	Awards forfeited/ lapsed shares 2018
Wessel Cornelius van Zyl		
2015 Restricted Share Awards	–	–
2015 Performance Shares based on Company Performance	–	–
2015 Performance Shares based on RTSR	–	–
2016 Restricted Share Awards	–	–
2016 Performance Shares based on Company Performance	–	–
2016 Performance Shares based on RTSR	–	–
2017 Restricted Share Awards	261 000	–
2017 Performance Shares based on Company Performance	391 500	–
2017 Performance Shares based on RTSR	391 500	–
Total		
Bruce Wayne Atkinson		
2015 Restricted Share Awards	–	–
2015 Performance Shares based on Company Performance	–	–
2015 Performance Shares based on RTSR	–	–
2016 Restricted Share Awards	–	–
2016 Performance Shares based on Company Performance	–	–
2016 Performance Shares based on RTSR	–	–
2017 Restricted Share Awards	108 750	–
2017 Performance Shares based on Company Performance	163 125	–
2017 Performance Shares based on RTSR	163 125	–
Total		
David Gibbons		
2015 Restricted Share Awards	–	–
2015 Performance Shares based on Company Performance	–	–
2015 Performance Shares based on RTSR	–	–
2016 Restricted Share Awards	–	–
2016 Performance Shares based on Company Performance	–	–
2016 Performance Shares based on RTSR	–	–
2017 Restricted Share Awards	217 500	–
2017 Performance Shares based on Company Performance	326 250	–
2017 Performance Shares based on RTSR	326 250	–
Total		
Warren Clifford van der Vyver		
2015 Restricted Share Awards	–	–
2015 Performance Shares based on Company Performance	–	–
2015 Performance Shares based on RTSR	–	–
2016 Restricted Share Awards	–	–
2016 Performance Shares based on Company Performance	–	–
2016 Performance Shares based on RTSR	–	–
2017 Restricted Share Awards	108 750	–
2017 Performance Shares based on Company Performance	163 125	–
2017 Performance Shares based on RTSR	163 125	–
Total		

Award vested shares 2018	Closing number of awards/ value of award shares 2018	Value of award on grant date shares 2018	Cash value on settlement during the year 2018	Closing estimated fair value at year-end 2018
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	261 000	68 000	-	55 000
-	391 500	102 000	-	82 000
-	391 500	102 000	-	82 000
1 044 000		271 000		219 000
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	109 000	28 000	-	23 000
-	163 000	42 000	-	34 000
-	163 000	42 000	-	34 000
435 000		113 000		91 000
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	217 500	57 000	-	46 000
-	326 000	85 000	-	67 000
-	326 000	85 000	-	67 000
870 000		226 000		183 000
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	109 000	28 000	-	23 000
-	163 000	42 000	-	34 000
-	163 000	42 000	-	34 000
435 000		113 000		91 000

Remuneration report (continued)

Revised remuneration disclosure

	Basic salary R'000	Bonus R'000	Directors' base fee R'000	Directors' atten- dance fee R'000	Total short- term benefits R'000	Post- employ- ment benefits R'000	Total as per AFS R'000	Share- based payments	Total R'000
Directors' emoluments									
2017									
Dr O Franks	–	–	56	167	223	–	223	–	223
B Krone	–	–	72	216	288	–	288	–	288
R Masemene	–	–	18	52	70	–	70	–	70
K Moloko	–	–	13	38	51	–	51	–	51
HJ Sonn	–	–	62	188	250	–	250	–	250
B Atkinson	1 766	107	–	–	1 873	129	2 002	53	2 055
W van Zyl	2 947	189	–	–	3 136	398	3 534	124	3 658
From the company	4 713	296	221	661	5 891	527	6 418	177	6 595
Total emoluments	4 713	296	221	661	5 891	527	6 418	177	6 595

Number of shares

	Opening balance	Allocated	Forfeited	Exercised	Closing balance	Share price at award	Strike date
2017							
B Atkinson							
January 2016 award	–	750 000	–	–	750 000	23c	2018/07/01
February 2017 award	–	400 000	(240 000)	–	160 000	38c	2019/07/01
	–	1 150 000	(240 000)	–	910 000		
W van Zyl							
January 2016 award	–	1 750 000	–	–	1 750 000	23c	2018/07/01
February 2017 award	–	875 000	(525 000)	–	350 000	38c	2019/07/01
	–	2 625 000	(525 000)	–	2 100 000		
Total	–	3 775 000	(765 000)	–	3 010 000		

All awards have a zero strike price.

The remuneration packages for executive directors and the attendance fee structure for non-executive directors is set out in detail in note 31 to the financial statements.



Oswald Franks

Remuneration committee chairman



Bernie Krone

Nominations committee chairman

29 June 2018

Social and ethics committee report

This committee executes the duties assigned to it by the Companies Act as well as any additional duties assigned to it by the board of directors of Esor. Although management is tasked with the day-to-day operational sustainability of their respective areas of business, the board remains ultimately responsible for group sustainability and has delegated certain duties in this regard to the social and ethics committee.

A formal charter is in place which guides the committee in ensuring that the group conducts its business in an ethical and properly governed manner and of reviewing or developing policies, governance structures and practices for sustainability.

The following members served on the committee during the 2018 financial year:

Executives

- Wessel van Zyl (Chair)

Independent non-executive director

- Dr Oswald Franks
- Reneiloe Masemene

Details of meeting attendance are on page 48.

The core purpose of the committee is to regularly monitor the group's activities and compliance with regard to any relevant legislation, other legal requirements or prevailing codes of best practice. The core purpose and values of Esor, as well as its strategy and conduct, are congruent with it being a responsible corporate citizen. The board has delegated responsibility for monitoring the group's overall responsible corporate citizenship performance to the social and ethics committee. The scope of the committee's mandate in this regard includes the relevant activities of the group in the workplace, in the economy, society and the environment. Where relevant, specific targets have been set against which the performance of the group is monitored on an ongoing basis.

During the reporting period the committee reviewed:

- progress in addressing the principles of the UN Global Compact Principles and the OECD performance in BEE

as measured against the Amended Codes of Good Practice – an annual checklist is completed in this regard

- employment equity plans for the group
- skills and other development programmes aimed at the educational development of employees
- corporate social investment programmes
- labour practices and policies
- Code of Ethics
- SHEQ performance
- marketing initiatives
- donations and gift policies

Management reports to the committee on matters relevant to its deliberations and the committee in turn draws relevant matters to the attention of the board and reports on them to the shareholders at the annual general meeting.

There is no formal tax policy in place. However, the board together with the social and ethics committee ensure that a tax control framework based on the principles of good tax governance is practiced.

Mechanisms to encourage ethical behaviour such as the Code of Ethics, corporate citizenship policies, ongoing anti-competitive training and whistle-blowers hotline were confirmed as adequate by the committee in the year.

No human rights incidents were reported during the year. In South Africa, aspects such as prohibition of child labour, forced compulsory labour and discriminatory practices are monitored by the Department of Labour in addition to the committee.

Please see pages 54 for reporting on the committee's areas of focus. Planned areas of future focus include achieving a workplace skills plan, under trying conditions in an ever reducing workforce.



Wessel van Zyl

Chair social and ethics committee

Audited 28 February 2018

The financial statements of Esor Limited group and company have been audited in compliance with s30 of the Companies Act.

Mr Wessel van Zyl, Acting Financial Director, was responsible for the supervision of the preparation of the annual financial statements.

These annual financial statements for the year ended 28 February 2018 were published on 29 June 2018.

Group and company annual financial statements

65	<i>Directors' responsibility statement</i>
66	<i>Declaration by company secretary</i>
67	<i>Audit and risk committee report</i>
71	<i>Directors' report</i>
74	<i>Independent auditor's report</i>
79	<i>Statements of financial position</i>
80	<i>Statements of profit or loss and other comprehensive income</i>
81	<i>Statements of changes in equity</i>
83	<i>Statements of cash flow</i>
84	<i>Accounting policies</i>
98	<i>Notes to the financial statements</i>

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of Esor Limited ("Esor"), comprising the statements of financial position at 28 February 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act of South Africa and the directors' report.

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

The directors have assessed the ability of the company and its subsidiaries to continue as going concerns. As detailed in the director's report the group's cash flow has been severely negatively impacted by the losses incurred during the year as well as impairments on long outstanding claims that have not been resolved and are subject to protracted litigation or negotiations. Various cash flow scenarios were stress tested and subjected to both internal and external review processes. There are several cash inflows, of which the timing and quantum at date of the report remain uncertain, that may have a material effect on the ability of the group to pay the creditors when they fall due. The directors, having considered the information at hand and evaluated the likelihood of future cash flows taking into account the current construction environment, have no reason to believe the businesses will not be a going concern in the year ahead.

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

Approval of consolidated and separate financial statements

The consolidated and separate financial statements of Esor Limited as identified in the first paragraph were approved by the board of directors on 29 June 2018 and are signed by:



Wessel van Zyl
CEO and Acting CFO



Bernie Krone
Chairman

Germiston
29 June 2018

Declaration by company secretary

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



Elise Beukes

iThemba Governance and Statutory Solutions (Pty) Limited

Company secretary

Germiston

29 June 2018

Audit and risk committee report

The audit and risk committee is an independent statutory committee appointed in terms of section 94(7) of the Companies Act, with further duties being delegated to the committee by the board. This report covers both sets of duties.

Membership and meetings

During the year the committee comprised independent non-executive directors Heather Sonn and Ossie Franks and non-executive Bernie Krone. All members except for Bernie Krone, satisfied the requirements of independence as required by the Companies Act for the full year. Mr Krone was regarded as a non-executive director until September 2017 when three years had elapsed since his full time employment by Esor and he became an independent non-executive director. He is also the chairman of the board. The members of the audit and risk committee have the necessary financial literacy, skills and experience as a whole to effectively execute their duties.

During the year, on 27 October 2017, Heather Sonn resigned as a member of the board and as chairperson of the audit and risk committee. On 16 November 2017, Haroon Takolia was appointed as a member of the board and chairperson of the audit and risk committee.

The board recommends that the following directors who are current members of the committee, stand for re-election by shareholders at the annual general meeting on 31 August 2018 to hold office until the following annual general meeting:

- OSW Franks;
- BK Krone; and
- H Takolia.

Mr Krone's skills and experience as a civil engineer and his knowledge of the industry have proven invaluable to the audit and risk committee and subject to shareholder approval, he will continue as a member of the committee.

The committee meets at least four times per year as required by its terms of reference. Meetings are attended by the internal and external auditors, the CEO and CFO, as well as other board members and invitees as considered appropriate by the committee's chairman. The audit and risk committee's terms of reference provide for confidential meetings between committee members and the internal and external auditors without executive management being present. The internal and external auditors have unrestricted access to the committee.

Role and responsibilities

The audit and risk committee's duties and responsibilities include all statutory duties as well as oversight of the effectiveness of the internal and external assurance providers, information technology ("IT"), and compliance and finance functions. Its duties and responsibilities include:

- assisting the board in ensuring that proper accounting records are maintained;
- overseeing the financial reporting process;
- ensuring compliance with applicable legislation, accounting policies, group policies, legal requirements and internal controls;
- appointing the auditors, agreeing fees payable to them and settling on the terms of their engagement;
- providing recommendations on matters relating to financial accounting, accounting policies, reporting and disclosure;
- advising on internal and external audit policy, activities, scope, adequacy and effectiveness of the internal audit function and audit plans;
- reviewing and approving external audit plans, findings, reports and fees;
- ensuring that non-audit services will not be obtained from the external auditors where the provision of such services could impair audit independence;
- reviewing and recommending the approval of interim and annual results; and
- reviewing, considering and making recommendations regarding distributions or dividend payments to shareholders.

Audit and risk committee report (continued)

Internal control

The board and Exco are ultimately responsible for overseeing the establishment of effective internal control systems to provide reasonable assurance that the group's financial and non-financial objectives are achieved. Internal control is implemented through the proper delegation of responsibility within a clearly defined approval framework, through accounting procedures and adequate segregation of duties. The group's internal accounting controls and systems are designed to provide reasonable assurance as to the integrity of the group's financial statements and to safeguard, verify and maintain accountability for all its assets. The internal audit department monitors the operation of the internal controls and systems and reports their findings and recommendations to management and the audit and risk committee. Corrective action is taken by management to address control deficiencies and improve systems where opportunities are identified. The internal control and risk management process is ongoing and is effective until the date of approval of the annual financial statements.

Internal audit

The group's internal audit department has a specific mandate from the audit and risk committee to independently appraise the adequacy and effectiveness of the group's internal controls, governance and risk management processes. The department, which is outsourced to 3KC Enterprises and Consulting (Pty) Ltd, reports functionally to the chair of the audit and risk committee and on an administrative basis to the CFO with direct access to the CEO. The internal audit coverage plan, which is subject to approval by the audit and risk committee and updated annually, covers all major risk areas as identified and assessed by internal audit and the group's risk management process. This ensures that the audit coverage is focused on and identifies areas of high risk. Internal audit provides an annual written assessment of the system of internal financial controls to the audit and risk committee. No matters have come to the attention of the audit and risk committee and/or internal audit which may have a material impact on the annual financial statements.

Accounting and auditing

The directors are responsible for ensuring that the group maintains adequate records and reports on the financial position of the group and the results of activities with accuracy and reliability. Financial reporting procedures are applied at all levels in the group to meet this responsibility. The external auditors are responsible for independently auditing and reporting on these financial statements in accordance with IFRS. The external auditors, KPMG Inc., were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors, Exco and committees of the board. The external auditors provide an independent assessment of systems of internal financial control to the extent necessary, for the audit, and express an independent opinion on whether the financial statements are fairly presented. The external and internal auditors have unrestricted access to the audit committee to ensure that their independence is in no way impaired. At least once annually, the audit committee chairman meets independently with representatives of internal and external audit. Time is also set aside at least once a year for the committee to meet independently of executive management with representatives of the internal and external auditors. The audit and risk committee has considered and is satisfied with the independence of KPMG Inc., the quality of the audit process and the extent of the non-audit services provided.

Financial Reporting

The audit and risk committee has reviewed the annual financial statements and reporting procedures of the group for the year under review, and is satisfied that they are appropriate and comply with International Financial Reporting Standards, the JSE Listings Requirements, and the Companies Act, 71 of 2008.

Finance function

The audit and risk committee has considered and is satisfied with the continued appropriateness of the expertise and experience of the CFO, BW Atkinson CA(SA), and the finance function. Bruce resigned effective 29 May 2018 and Wessel van Zyl, current CEO, is acting in the position of CFO until a suitable candidate is appointed. This has been approved by the JSE.

Reporting

The committee has discharged all its responsibilities and carried out all its functions as contained in its terms of reference and as required by the Companies Act. In particular, the committee:

- reviewed the interim and annual financial statements (and press announcements) and recommended them for adoption by the board;
- approved the internal audit terms of reference and audit plans;
- received and reviewed reports from both internal and external auditors, which included commentary on the effectiveness of the internal control environment, systems and processes and, where appropriate, made recommendations to the board;
- reviewed the independence of the external auditors, KPMG Inc. who have been auditors of the group since 2009, and recommended them for reappointment as auditors for the 2018 financial year at the annual general meeting, with SG Robinson as the designated auditor;
- reviewed the external auditor's audit report and key audit matters included;
- determined the fees to be paid to the external auditors and their terms of engagement;
- concluded that, together with mandated partner rotation, which last occurred in 2017 and policies and procedures in force mitigate the risk of familiarity between the external auditor and management;
- determined the nature and extent of non-audit services that may be provided by the external auditors and pre-approved the contract terms for the provision of non-audit services by the external auditors; and
- received and dealt appropriately with any complaints, from within or outside the group, relating to the accounting practices and internal controls of the group, to the content or auditing of its financial statements, the internal financial controls or any related matter, potential violations of the law and questionable accounting or auditing matters.

Comments on key audit matters

Impairment assessment

Goodwill must be tested annually for impairment, and the committee focused on this area in reviewing the annual financial statements for the financial year ended 28 February 2018. The committee reviewed management's annual impairment test which incorporates judgements based on assumptions about future profitability for the construction division against which appropriate long-term growth rates and discount rates must be applied. Following the losses generated in the construction division, management has recalculated the recoverable amount of the division as at 28 February 2018. An impairment loss of R61,8 million was recognised, reducing the carrying amount of the goodwill for this division to zero as at 28 February 2018. The impairment assessment was performed based on the value-in-use methodology using a five-year discounted cash flow model. The post-tax cash flows were discounted using a pre-tax discount rate in line with valuations methodology and the requirements of accounting standards.

Recoverability of deferred tax assets

The group has recognised deferred tax assets in the financial statements resulting from deductible temporary differences (provisions, accruals and retentions raised through operations of the companies) and cumulative assessed losses as disclosed in note 7 of the annual financial statements.

Deferred tax assets have been recognised in the separate legal entities to the extent that it is probable that future taxable profits will be available, against which the temporary differences can be utilised. During the year, an impairment to the deferred tax asset was made to the value of R7 million as a result of management's assessment that future taxable profits will reduce to such an extent that insufficient utilisation of the tax asset held will be achieved. A further R65 million in deferred tax asset was not raised in the current year, resulting in a net R72 million deferred tax asset that was not recognised.

Audit and risk committee report *(continued)*

Construction contract revenue recognition

The recognition of profit on construction and long-term service contracts in accordance with International Accounting Standards ("IAS") 11 *Construction Contracts* is based on the stage of completion of contract activity.

This matter involves significant judgement in preparing suitable estimates of the forecast costs and revenue to completion on all contracts. An error in the contract forecast could result in a material variance in the amount of profit or loss recognised to date.

The committee assessed the methodology and judgement applied by management focusing on the computation of the percentage of completion and the recognition of future losses that are computed based on the final estimated revenue and final estimated costs.

The committee discussed the matter with the external auditors to understand their related audit procedures and the evidence obtained to support the judgements. Subsequent to this review of the committee, the committee concluded that the methodology and judgement applied by management is in accordance with IFRS.

Going concern

Management is required to make an assessment of the going concern assumption used in the preparation of the annual financial statements. This assessment involves making a judgement, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

Management has used all available information at the time of making the assessment including considering the timing of inflows from sale of land, finalisation of claims, proceeds from insurance settlements as well as short and long-term cash flow forecasts. The committee interrogated management's key assumptions used for determining the cash flow forecasts used in the going concern assessment as more fully explained in note 45 to the financial statements.

The committee noted the group's liquidity constraints and management has put in plans to mitigate this position. These plans and the successful implementation strongly indicate that the group is able to raise sufficient cash resources for the foreseeable future.

The implementation and management of these plans are an essential element of securing adequate liquidity for the business going forward. Sensitivity and what-if analysis have been applied to the long-term cash flow analysis in stress testing the assumptions and timing of inflows to provide comfort to the committee of the robustness of the analysis. If not concluded successfully, cash flow resources available to the group will be impacted materially.



H Takolia

Chairman: Audit and risk committee

29 June 2018

Directors' report

The directors have pleasure in presenting the consolidated and separate financial statements for the year ended 28 February 2018, which have been audited in compliance with the Companies Act. The preparation of these annual financial statements was supervised by the group's CFO, Bruce Atkinson, who resigned on 29 May 2018 and replaced by Wessel van Zyl as acting CFO.

Nature of business

Esor is one of South Africa's benchmark civil engineering and construction groups providing specialist construction solutions including: developments, building and housing, infrastructure, pipelines, pipe services and sanitation.

Financial results

Further comment and detail are set out in the financial statements and accompanying notes.

Use of estimates and judgements

Contracts

Senior management has spent considerable time and effort to ensure that the recognition of revenue and expenses relating to construction contracts is probable and reliable and expected losses are recognised immediately. Where the outcome of a contract cannot be measured reliably, profit is recognised to the extent of revenue recorded. During the finalisation of the 2018 financial results, various claims and disputed items were interrogated and resulted in the reversal of several claims that no longer comply with IAS 11: *Revenue recognition*. Although certain claims were written back in the current year, management remains focused to resolving these disputes in a favourable manner.

Quality issues were addressed at the Northern Aqueduct contract for eThekweni Municipality in KwaZulu-Natal, where certain of the costs in repairing the defective welds are being claimed from the insurance underwriter. This matter was resolved during April 2018. The contract was due for completion in September 2015 but will only be completed and tested in July 2018. The total estimated cost to complete amounts to an additional cost of R6,7 million for losses to be incurred post FY2018. After year-end the insurer has agreed the quantum for the professional indemnity claim that relates to the costs in gaining access to and reinstating the pipeline.

Phase I of Western Aqueduct was subject to certain client delays and impacted by operational issues. Various legal and claim disputes are being addressed and remain in various stages of finalisation. For FY2018 these resulted in a loss of R119 million and will continue to impact cash flow and liquidity until September 2018.

Claims and variations on contracts are only recognised if senior management is confident that it is highly probable that the claims and variations can be reliably measured, and the customer will approve such items. In addition, negotiations for recognising such a claim have reached an advanced stage.

Competition Commission and CIDB

The Competition Commission's Tribunal is still reviewing the 2009 complaint regarding collusive tendering practices in the geotechnical exploration and investigation works that possibly occurred dating back to 2005. The matter should be finalised in the 2018 calendar year. Esor is further in negotiations with the Construction Industry Development Board ("CIDB") based on their investigation into transgressions of the CIDBs Code of Conduct.

Directors' report (continued)

Directors' interests

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

	Direct beneficial interest 2018	Indirect beneficial interest 2018	Number of Esor shares 2018	Direct beneficial interest 2017	Indirect beneficial interest 2017	Number of Esor shares 2017
B Krone	10 000 000	–	10 000 000	10 000 000	–	10 000 000
WC van Zyl	1 000 000	–	1 000 000	815 250	–	815 250
BW Atkinson ¹	10 000	–	10 000	10 000	–	10 000
OSW Franks	10 150	–	10 150	10 150	–	10 150
H Sonn ²	–	–	–	–	–	–
R Masemene	–	–	–	–	–	–
H Takolia ³	950 000	–	950 000	–	–	–

1. Resigned 29 May 2018.

2. Resigned 27 October 2017.

3. Appointed 16 November 2017.

Since year-end 1 000 000 shares in terms of the Esor Share Plan vested in favour of WC van Zyl, that now has direct beneficial interest of 2 000 000.

Directors' emoluments

The remuneration of directors is set out in note 30 to the financial statements.

Going concern

The board has considered the group's and company's ability to continue as a going concern. In assessing this, various aspects of the future business including the following were considered:

- The stress tested 15-month forecast cash flow from the date of the directors' report;
- The losses recognised during the 2018 financial year included the onerous contract provisions of R29,7 million. The cash flows from these provisions will be incurred in the 2019 financial year;
- The group's total facilities, including overdrafts, trade finance, asset-based finance, bonding and guarantee facilities amount to R940 million at 28 February 2018;
- The probability and timing of claims to be received in respect of the contractual entitlements and various other claims being pursued; and
- Profitability of the secured order book of R890 million as well as pending awards of a further R1 billion, including R300 million for the Diepsloot mixed use development project.

The group plans to improve cash flow sustainability has focused on:

- Finalising legacy contracts and therefore stop cash outflows through the practical completion of three of the four aqueduct projects in H12018. This will also release substantial retention monies;
- Disposal of idle and non-core assets following the strategic positioning of the group to focus on water, sanitation and developments. Proceeds to the value of R20,7 million has been received post year-end;
- Refinancing of selected equipment through vendor finance that has generated R12,2 million inflow and repayment over an 18-month instalment sales period;
- Renegotiating payment terms with major suppliers and sub-contractors to more closely match inflows with outflows;
- Ensuring that adequate security is provided to the primary bankers to cover the facilities that are made available in terms of the facilities arrangements;

- Ongoing communication with guarantor providers to maintain adequate bonding facilities in facilitation successful implementation of contract awards; and
- Negotiations to sell-off development land in Uitvlugt, in excess of 400 ha, for R12 million that has been on the statement of financial position for over four years but needs working capital to unlock these major projects. Instead we will focus on small private developments that can be largely leveraged and have a quick turnaround life.

In preparing the forecasted cash flow, a number of assumptions on the timing of major inflows were made and include:

- Finalising labour loss claims with Eskom and realising the proceeds by October 2018;
- Proceeds of R12 million on the sale of Esor Uitvlugt (Pty) Ltd by September 2018;
- Sale of remaining three business properties at Orchards and realising R16,4 million between September 2018 and March 2019;
- Sale of the three properties at Kathu, that were transferred to Esor Construction in terms of the settlement agreement with KPD (Pty) Ltd, for an amount of R12 million in November 2018 and the balance of R28 million in February 2019; and
- Proceeds on refinancing certain Mercedes-Benz trucks during April 2018 realising R12,2 million and disposed of plant and equipment totalling R26 million with the balance of the proceeds of R5,2 million to be received during the period July to September 2018.

The directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, the ability of the group and company to settle their liabilities as and when they fall due is largely dependent on the successful realisation of these projected cash inflows. If the group and company do not realise the cash inflows in a timely manner and in the quantum estimated, then the cash flow resources available to the group will be materially impacted.

As a result of the events and conditions described above, there is material uncertainty on the timing and quantum of the cash inflows included in the cash flow forecast that may cast significant doubt on the group and company's ability to continue as going concerns and, therefore, the group and company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Other matters

KPMG issued a Reportable Irregularity report on 19 April 2018, citing the liquidity crunch as an indicator of financial distress. Continued efforts and plans have been put in place to ensure Esor's ability to pay creditors when they fall due. The board is satisfied that the company is solvent and liquid both commercially and factually. At year-end the group's current assets of R405 million exceeded current liabilities of R310 million. Refer to note 44 for more details.

Auditors

KPMG Inc. will continue in office in accordance with section 90(6) of the Companies Act. The current audit partner is Mr SG Robinson.

Events after reporting date

The management and board continue to evaluate the liquidity of the group and in an effort to realign the resources to workload, the group has started a section 189 process of anticipated retrenchment post year-end and will be communicated to employees in July 2018, which will see the reduction in headcount to align with workload as well as reducing costs by around R4 million a month. This process will be ongoing until September 2018 and it is anticipated that retrenchment costs will be around R10 million. The refinancing arrangement with Mercedes-Benz was concluded in April 2018 and proceeds of R12,2 million received in May 2018.

29 June 2018

Independent auditor's report

To the shareholders of Esor Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Esor Limited ("the group" and "the company") set out on pages 79 to 133, which comprise the statements of financial position as at 28 February 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Esor Limited as at 28 February 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 45 to the financial statements, which indicates that the group incurred a net loss of R307 million and the company incurred a net loss of R402 million. As stated in note 45, these events or conditions, along with other matters as set forth in note 45, indicate that a material uncertainty exists that may cast significant doubt on the group's and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

The key audit matter	How the matter was addressed in our audit
Recognition and measurement of contract revenue and contract costs (relates to the consolidated financial statements). Refer to notes 2.2, 2.13 and 18 to the financial statements. The group's revenue is derived from construction contracts. 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 in proportion to the stage of completion of the contract. An expected loss on a contract is recognised immediately. The stage of completion is assessed by reference to surveys of work performed. Contract revenue includes 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. However, the reliability of current estimates of future revenue and costs is a critical factor when assessing the profit (or loss) to be recognised on incomplete contracts. The potential outcome of contracts, including the probability of variations, claims and incentive payments materialising, can have a material impact on the financial statements and is subject to the outcome of future uncertain events. Given the significant judgement and estimation applied by management the recognition of contract revenue and contract costs was considered a key audit matter in our audit of the consolidated financial statements.	
Recognition of onerous contracts and penalties within Esor Construction (relates to the consolidated financial statements). Refer to notes 2.2, 2.13 and 12 in the financial statements. Ongoing project delays and quality issues related to the Western and Northern Aqueduct construction contracts required management to critically evaluate the estimated costs to complete the contracts. During the year losses amounting to R180,8 million were recognised in respect of these contracts which included an onerous contract provision of R21,9 million. The estimation of the future projected costs and potential penalties is a complex matter which involves significant levels of judgement by management. Accordingly the recognition of onerous contracts and penalties was considered a key audit matter in our audit of the consolidated financial statements.	
	Our audit procedures included: For a selection of contracts, we reviewed the contract documentation and critically assessed and challenged the recognition of revenue in light of the performance of the contract. This included: ■ Evaluating management's processes and controls in respect of the recognition of construction revenue and costs. As part of this process we tested key controls over the preparation, review and authorisation of contracts entered into. ■ Evaluating the appropriateness of the position adopted by management at year-end of the stage of completion of the contract with reference to measurement certificates received in respect of work completed and other relevant correspondence received related to the contract. ■ We performed a detailed analysis of all significant variations and claims and challenged the probability of whether these would materialise based on whether the variations and claims could be reliably measured and were considered to be at an advanced stage of negotiation. ■ Reviewing reports from legal counsel and experts regarding the expected outcome of contentious issues related to existing contracts. In addition to the work performed in addressing the recognition and measurement of contract revenue and contract costs, we evaluated the appropriateness of the onerous contract provisions and penalties by performing the following additional procedures: ■ Attending the year-end contracts meeting to corroborate the estimation by management of the extent of costs required to complete the contracts. We challenged management on the accuracy of the forecasts given the additional losses incurred relative to the prior year forecasts; and ■ Reviewing contract documentation and correspondence with relevant parties to support management's assessment of future costs expected to be incurred.

Independent auditor's report (continued)

The key audit matter	How the matter was addressed in our audit
Assessment of goodwill for impairment (relates to the consolidated financial statements). Refer to notes 2.8 and 5 in the financial statements. Goodwill is required, in terms of IAS 36: <i>Impairment of Assets</i>, to be tested annually for impairment. The recoverable amount of Esor Construction, the cash-generating unit to which the goodwill is allocated, was determined based on a value-in-use calculation using a discounted cash flow model. A number of key judgements were made in determining the inputs used in the impairment model, including: ■ Revenue growth for the forecast period; and ■ Gross margins over the forecast period. Discount rate applied to the forecasted cash flows. Goodwill of R61,8 million was impaired during the year. Given the inherent uncertainty involved in the assessment of goodwill for impairment, this was considered a key audit matter in our audit of the consolidated financial statements.	Our audit procedures included: ■ Evaluating the assumptions and methodologies applied by the directors in the goodwill impairment assessment, in particular those relating to revenue growth, gross margins and the discount rate applied to the forecasted cash flows. ■ Challenging the directors' growth assumptions by comparing them to our own assessments based on past experience, as well as considering the secured work at year-end. ■ Recalculating the discount rate applied by the directors and assessing the rate for reasonableness by agreeing key inputs into the weighted average cost of capital calculation to external market data. ■ Performing our own sensitivity analysis in relation to the key assumptions applied to assess the impact on the value in use of the cash-generating unit by changing the key assumptions. ■ Assessing the appropriateness of the disclosures in the consolidated financial statements as set out in note 5.
Impairment of the investments in Esor Construction Proprietary Limited (relates to the separate financial statements). Refer to notes 2.6, 8, 39 and 42 in the financial statements. Given the losses incurred by Esor Construction Proprietary Limited ("Esor Construction") during the year, the directors were required to assess the investment in Esor Construction, amounting to R579 million, for impairment. The impairment assessment involves the application of valuation inputs such as discounted cash flows of the subsidiary and an appropriate discount rate, which requires the exercise of judgement by the directors. An impairment of R403 million was recognised in the current year. Due to the magnitude of the investment in Esor Construction and the related estimation uncertainty involved in the impairment assessment, the impairment of the investment in Esor Construction was considered to be a key audit matter in our audit of the separate financial statements.	We used the work performed in relation to the goodwill impairment assessment in respect of the Esor Construction cash-generating unit, in assessing the impairment recognised in respect of the company's investment in Esor Construction. In particular, we ensured that the assumptions and judgements made in relation to the goodwill impairment assessment were consistent with those used in the impairment assessment in respect of the company's investment in Esor Construction. We performed the following additional specific procedures: ■ Compared the value in use as determined in the goodwill impairment assessment to the net asset value of Esor Construction to determine the appropriateness of the impairment to be recognised in the current year. ■ Assessing the appropriateness of the disclosures made related to the impairment recognised.

Other information

The directors are responsible for the other information. The other information comprises the declaration by company secretary, audit and risk committee report and the directors' report as required by the Companies Act of South Africa and the directors' responsibility statement which we obtained prior to the date of this report and the Integrated Report which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant

Independent auditor's report (continued)

doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Esor Limited for 10 years.

In accordance with our responsibilities in terms of sections 46(2) and 46(3) of the Auditing Profession Act, we report that we have identified one reportable irregularity in terms of the Auditing Profession Act. We have reported such matters to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in the following note 46 to the financial statements.



KPMG Inc.

Per SG Robinson

Chartered Accountant (SA)

Registered Auditor

Director

29 June 2018

Statements of financial position

as at 28 February 2018

	Note	GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Assets					
Non-current assets		231 619	337 556	185 282	588 574
Property, plant and equipment	4	157 014	197 624	–	–
Goodwill	5	3 630	65 447	–	–
Deferred tax asset	7	17 323	31 044	214	523
Investments in subsidiaries	8	–	–	185 068	588 051
Investment and loan to joint venture	9	52 891	42 680	–	–
Loans and long-term receivables	29	761	761	–	–
Current assets		404 686	680 421	68 410	67 928
Loans and receivables	29	40 578	40 578	–	–
Inventories	10	97 921	98 557	–	–
Non-current assets held-for-sale	4	3 500	–	–	–
Unsecured loans	11	–	–	68 404	67 927
Taxation		54	13 840	–	–
Trade and other receivables	12	253 342	522 086	–	–
Cash and cash equivalents	28	9 291	5 360	6	1
Total assets		636 305	1 017 977	253 692	656 502
Equity and liabilities					
Share capital and reserves		259 776	566 794	251 923	654 048
Share capital and premium	13	617 236	617 236	643 667	643 667
Equity compensation reserve		1 421	557	–	–
Foreign currency translation reserve		27 554	28 497	–	–
Retained (deficit)/earnings		(386 435)	(79 496)	(391 744)	10 381
Non-current liabilities		66 267	71 136	–	–
Secured borrowings	14	58 332	38 814	–	–
Deferred tax liability	7	7 935	32 322	–	–
Current liabilities		310 262	380 047	1 769	2 454
Current portion of secured borrowings	14	32 614	31 869	–	–
Bank overdraft	28	45 947	27 487	–	–
Taxation		5 086	146	–	–
Provisions	15	–	–	–	–
Trade and other payables	17	226 615	320 545	1 769	2 454
Total equity and liabilities		636 305	1 017 977	253 692	656 502

Statements of profit or loss and other comprehensive income

for the year ended 28 February 2018

	Note	GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Revenue	18	959 357	1 373 048	8 400	7 800
Cost of sales		(1 077 306)	(1 358 591)	–	–
Gross profit		(117 949)	14 457	8 400	7 800
Other income	19	4 274	28 807	–	–
Operating expenses		(83 016)	131 141	(7 233)	(8 557)
(Loss)/profit before interest, tax, impairments and depreciation		(196 691)	(87 877)	1 167	(757)
Impairments and depreciation	4, 5, 39	(94 834)	(72 967)	(402 983)	(94 606)
Results from operating activities	20	(291 525)	(160 844)	(401 816)	(95 363)
Finance income	21	1 210	13 670	–	–
Finance costs	22	(10 815)	(8 248)	–	–
Loss before income tax		(301 130)	(155 422)	(401 816)	(95 363)
Taxation (charge)/income	23	(5 809)	15 666	(309)	(401)
Loss for the year		(306 939)	(139 756)	(402 125)	(95 764)
Other comprehensive income:					
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations (net of tax)		(943)	741	–	–
Other comprehensive income, net of tax		(943)	741	–	–
Loss attributable to:					
Owners of the company		(306 939)	(139 756)	(402 125)	(95 764)
Total comprehensive income attributable to:					
Owners of the company		(307 882)	(139 015)	(402 125)	(95 764)
Earnings per share					
Basic loss per share (cents)	24	(66,2)	(38,1)	(81,4)	(24,1)
Diluted loss per share (cents)	24	(64,9)	(36,7)	(86,7)	(0,3)

Statements of changes in equity

for the year ended 28 February 2018

	Share capital R'000	Share premium R'000	Equity compensation reserve R'000	Foreign currency translation reserve R'000	Retained earnings/ (deficit) R'000	Total equity R'000
GROUP						
Balance at 29 February 2016	365	580 649	72	27 756	60 260	669 102
Loss for the year	–	–	–	–	(139 756)	(139 756)
Other comprehensive income	–	–	–	741	–	741
Total comprehensive income for the year	–	–	–	741	(139 756)	(139 015)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued	98	37 444	–	–	–	37 542
Share issue expenses	–	(1 320)	–	–	–	(1 320)
Share-based payment	–	–	485	–	–	485
Total transactions with owners	98	36 124	485	–	–	36 707
Balance at 28 February 2017	463	616 773	557	28 497	(79 496)	566 794
Loss for the year	–	–	–	–	(306 939)	(306 939)
Other comprehensive income	–	–	–	(943)	–	(943)
Total comprehensive income for the year	–	–	–	(943)	(306 939)	(307 882)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based payment	–	–	864	–	–	864
Total transactions with owners	–	–	864	–	–	864
Balance at 28 February 2018	463	616 773	1 421	27 554	(386 435)	259 776

Statements of changes in equity (continued)

for the year ended 28 February 2018

	Share capital R'000	Share premium R'000	Retained earnings/ (deficit) R'000	Total equity R'000
COMPANY				
Balance at 29 February 2016	395	607 050	106 145	713 590
Loss for the year	–	–	(95 764)	(95 764)
Total comprehensive income for the year	–	–	(95 764)	(95 764)
Shares issued	98	37 444	–	37 542
Share issue expenses	–	(1 320)	–	(1 320)
Total transactions with owners	98	36 124	–	36 222
Balance at 28 February 2017	493	643 174	10 381	654 048
Profit for the year	–	–	(402 125)	(402 125)
Total comprehensive income for the year	–	–	(402 125)	(402 125)
Total transactions with owners	–	–	–	–
Balance at 28 February 2018	493	643 174	(391 744)	251 923

Statements of cash flow

for the year ended 28 February 2018

	Note	GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Cash flows from operating activities		(46 722)	(23 946)	482	60
Cash receipts from customers		1 228 101	1 379 501	8 400	7 800
Cash paid to suppliers and employees		(1 264 609)	(1 400 847)	(7 918)	(7 740)
Cash (utilised in)/generated by operations	25	(36 508)	(21 346)	482	60
Finance income		1 210	6 573	–	–
Finance costs		(10 815)	(6 220)	–	–
Taxation paid	26	(609)	(2 953)	–	–
Cash flows from investing activities		11 930	(31 287)	–	–
Additions to property, plant and equipment		(18 299)	(20 373)	–	–
Proceeds on disposal of property, plant and equipment		20 721	10 473	–	–
Acquisition through business combination	27	–	(36 387)	–	–
Loan repaid by joint venture		9 508	15 000	–	–
Cash flows from financing activities		20 263	(9 316)	(477)	(62)
Decrease in unsecured loans		–	–	(477)	(36 284)
Secured borrowings					
– raised		42 563	4 662	–	–
– repaid		(22 300)	(37 841)	–	–
Preference shares redeemed		–	(12 359)	–	–
Shares issued net of expenses		–	36 222	–	36 222
Net increase/(decrease) in cash and cash equivalents		(14 529)	(64 549)	5	(2)
Net cash and cash equivalents at beginning of year		(22 127)	42 422	1	3
Cash and cash equivalents at end of year	28	(36 656)	(22 127)	6	1

Accounting policies

for the year ended 28 February 2018

1. General information

Esor 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 and separate financial statements of the group and company as at and for the year ended 28 February 2018 comprise the company and its subsidiaries (together referred to as the "group" and individually as "group entities") and the group's interest in joint ventures. The group is primarily involved in the civil engineering, development of low-income housing and speciality pipeline sectors in South and southern Africa (refer to notes 2.22 and 42).

2. Presentation of financial statements

Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Pronouncements issued by the Financial Reporting Standards Council, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the JSE Listings Requirements and in the manner required by the Companies Act, 71 of 2008, of South Africa. The consolidated and separate financial statements have been prepared on the historical cost basis and incorporate the principal accounting policies set out below. The group has consistently applied the accounting policies to all periods presented.

2.1 Functional and presentation currency

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

2.2 Use of estimates and judgements

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

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

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

Revenue

During the initial stages, and at times throughout the life 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 an incomplete contract (refer to notes 13 and 20).

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 5.

2. Presentation of financial statements *(continued)*

2.2 Use of estimates and judgements *(continued)*

Recognition of deferred tax asset

Availability of future taxable profit against which carry forward tax losses can be used. Additional disclosure of the estimate is included in note 7.

Loans and long-term receivables

The recoverability of the loan to Kathu Property Developers (note 10.1) was assessed using formal valuations on the underlying security as well as offers to purchase on that security.

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 group; 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 measured 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. This is done 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 depreciation methods and estimated useful lives were applied during the current and previous periods:

Item	Depreciation method	Useful life
Land	Not depreciated	Indefinite
Buildings	Straight-line	50 years
Plant and equipment	Variable	Based on hours utilised
Motor vehicles	Straight-line	3 – 8 years
Furniture and fittings	Straight-line	1 – 10 years
Computers	Straight-line	1 – 3 years

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

Accounting policies *(continued)*

for the year ended 28 February 2018

2. Presentation of financial statements *(continued)*

2.3 Property, plant and equipment *(continued)*

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.

The depreciation method, residual value and useful life of an asset is reviewed at least at each financial year-end and adjusted if appropriate.

2.4 Non-current assets held-for-sale and discontinued operations

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 remeasured 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 (except for 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 profit or loss.

Intangible assets and property, plant and equipment once classified as held-for-sale are not amortised or depreciated.

2.5 Goodwill

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 financial statements, investments in subsidiaries are measured 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.

2. Presentation of financial statements *(continued)*

2.7 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, only substantive rights are considered. 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.

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.

Interests in equity-accounted investees and joint operations

The group's interest in equity-accounted investees comprises interest in a joint arrangement.

Joint arrangements

A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

In determining the classification of joint arrangements, management considered the following:

- (a) Contractual agreements with respect to sharing control; and
- (b) Whether parties are jointly and severally liable for the joint arrangement's rights and obligations.

Joint operations and joint ventures

Management assesses whether a joint arrangement can be classified as a joint operation or joint venture. This assessment depends on whether the joint arrangement has rights to the assets and obligations for the liabilities, relating to the arrangement.

The group recognises its investment as joint operations when the operations are performed through unincorporated arrangements such as partnerships and contracts, and the group has rights to the assets and obligations for the liabilities.

A joint venture is an arrangement in which the group has joint control, whereby the group has rights to the nets assets of the arrangement, rather than rights to its assets and obligations for the liabilities.

Interests in the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the group's share of the profit or loss and OCI of equity-accounted investees, until the date on which joint control ceases.

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.

Accounting policies *(continued)*

for the year ended 28 February 2018

2. Presentation of financial statements *(continued)*

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 such as loss making operations which 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.

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. The recoverable amount is estimated each year at the same time.

For impairment testing, assets are grouped together in the smallest group of assets that generate cash flows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The goodwill acquired in a business combination, for 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. In allocating the impairment loss the carrying value of an asset is not reduced below the highest of its fair value less costs of disposal, value in use (if determinable) and zero.

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. Presentation of financial statements *(continued)*

2.9 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise 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 are measured at amortised cost. 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 statement of cash flows.

The group initially recognises loans and receivables and debt securities issued on the date when they originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the group is recognised as a separate asset or liability.

The group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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

Non-derivative financial assets and liabilities

The group initially recognises loans and receivables and debt securities 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.

Loans and receivables

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

Refer to notes 9, 14 and 29 for details of loans and liabilities.

Financial liabilities

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

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.

Accounting policies *(continued)*

for the year ended 28 February 2018

2. Presentation of financial statements *(continued)*

2.10 Share capital and reserves *(continued)*

Repurchase of share capital

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.

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.

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 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 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 weighted average 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.

2. Presentation of financial statements *(continued)*

2.12 Inventories *(continued)*

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 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.

Revenue for the company consist of management fees charged to subsidiary companies.

Property developments

Revenue from construction of real estate is recognised on transfer of the property deeds when the risk and reward of ownership transfer to the buyer in accordance with IFRIC 15.

Management fees

Management fees are charged to subsidiary companies.

2.14 Taxation

Taxation 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 joint arrangements 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 the intention is to settle current tax liabilities and assets on a net basis or their current tax assets and liabilities will be realised simultaneously.

Accounting policies *(continued)*

for the year ended 28 February 2018

2. Presentation of financial statements *(continued)*

2.14 Taxation *(continued)*

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.

2.15 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. These provisions have been included under trade and other receivables.

2.16 Dividend received

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

2.17 Finance income and costs

Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Borrowing costs are interest paid in the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a prolonged period of time to prepare for their intended use or sale are added to the cost of those assets until the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

2.18 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.

2. Presentation of financial statements *(continued)*

2.18 Foreign currencies *(continued)*

Foreign operations

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. 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").

2.19 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.

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

Accounting policies *(continued)*

for the year ended 28 February 2018

2. Presentation of financial statements *(continued)*

2.20 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 employees render service that entitle them to the contributions. 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.

2.21 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 (the "CEO") in assessing segment performance and allocating resources to segments. 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. Revenue represents segment revenue from which intersegment revenue has been eliminated. Sales between segments are made on a commercial basis.

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

Esor Construction

Revenue in this segment is derived from the construction of roads, township infrastructures, water and sewerage reticulation and concrete projects, as well as the construction and rehabilitation of onshore pipelines. These operations are primarily located in southern Africa.

2. Presentation of financial statements *(continued)*

2.21 Segment reporting *(continued)*

Reportable segments *(continued)*

Esor Developments

Revenue in this segment is derived from development of low-income markets. This segment is solely located in South Africa.

Geographical information

The group's operations are primarily located in South Africa. The group also has operations in other regions outside of South Africa, but within the SADC area.

3. New accounting pronouncements

A number of new standards and amendments to standards have been issued that are not yet effective for the period ended 28 February 2018 and have not been applied in preparing these financial statements. All standards will be adopted at their effective date (except for those standards that are not applicable to the group and/or company).

Standards	Details of amendment
IFRS 15: Revenue from Contracts with Customers	This standard replaces IAS 11: <i>Construction Contracts</i>, IAS 18: <i>Revenue</i>, IFRIC 13: <i>Customer Loyalty Programmes</i>, and IFRIC 15: <i>Agreements for the Construction of Real Estate</i>, IFRIC 18: <i>Transfer of Assets from Customers</i> and SIC-31: <i>Revenue – Barter of Transactions Involving Advertising Services</i>. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The group is in the process of analysing and implementing the new standard. Progress on this analysis and implementation has not progressed as envisioned due to the other challenges being experienced by the group. Work completed so far includes the hosting of a workshop training session with key individuals across the group to upskill the knowledge base of the new standard in the group. Additionally, key contracts with customers have been identified and a finance working group is working through the steps above to complete the analysis and implementation of the standard. Various additional disclosures, as required by IFRS 15, will be included in the February 2019 financial statements, and it is anticipated that the cumulative catch up method will be used to transition to IFRS 15. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS.

Accounting policies (continued)

for the year ended 28 February 2018

3. New accounting pronouncements (continued)

Standards	Details of amendment
IFRS 9: <i>Financial Instruments</i>	On 24 July 2014, the IASB issued the final IFRS 9: <i>Financial Instruments</i> standard, which replaces earlier versions of IFRS 9 and completes the IASBs project to replace IAS 39: <i>Financial Instruments: Recognition and Measurement</i>. Classification and measurement of financial assets All financial assets are initially measured at fair value. Debt instruments are subsequently measured at fair value through profit or loss, amortised cost or fair value through other comprehensive income. Equity instruments are measured at fair value through profit or loss. The group has evaluated its financial assets and does not anticipate any change in the classification and measurement. Classification and measurement of financial liabilities For liabilities measured at fair value through profit and loss, the change in the fair value of the liability attributable to changes in credit risk is presented in other comprehensive income. The remainder of the change in fair value is presented in profit and loss; and all other classification and measurement requirements in IAS 39 have been carried forward into IFRS 9. The group does not classify liabilities at fair value through profit or loss and therefore does not anticipate any change. Impairment The impairment requirements are based on an expected credit loss ("ECL") model. Entities are generally required to recognise 12-month ECL on initial recognition and thereafter, as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. The group expects earlier recognition of credit losses because of this change, and will assess the impact as part of the transition to IFRS 9. Hedge accounting Hedge effectiveness testing is prospective and depending on the hedge complexity, can be qualitative. A risk component of a financial or non-financial instrument may be designated as the hedge item if the risk component is separately identifiable and reliably measurable. More designations of groups of items as the hedged item are possible, including layer designations and some net positions. The group does not apply hedge accounting and therefore does not anticipate any change. Additional disclosures are anticipated as a result of IFRS 9. The standard is effective for annual periods beginning on or after 1 January 2018, with retrospective application, early adoption is permitted.

3. New accounting pronouncements *(continued)*

Standards	Details of amendment
IFRS 16: Leases	A new standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The standard is expected to result in the recognition of the asset and obligation for long-term leases. It is expected to result in a restatement of our operating leases to recognising the "right-of-use assets" together with the related lease liabilities. It is also expected to result in additional disclosures.
Clarifying share-based payment accounting (Amendments to IFRS 2)	Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2: <i>Share-based Payments</i>. The amendments cover three accounting areas: ■ Measurement of cash-settled share-based payments – The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement. ■ Classification of share-based payments settled net of tax withholdings – The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met. ■ Accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments clarify the approach that companies are to apply. The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards. The group is in the process of assessing the impact of the amendment. The amendments are effective for annual periods commencing on or after 1 January 2018.

Other than when specifically mentioned, the group is still determining the impact of the amendments on the financial statements.

Notes to the consolidated and separate financial statements

for the year ended 28 February 2018

	Cost R'000	Accumulated depreciation and impairment losses R'000	Carrying value R'000
4. Property, plant and equipment			
Group			
2018			
Land and buildings	37 612	(7 546)	30 066
Plant and equipment	262 736	(142 962)	119 774
Motor vehicles	29 106	(19 818)	9 288
Furniture and fittings	551	(397)	154
Computers	3 622	(2 390)	1 232
	333 627	(173 113)	160 514
Less: Land and buildings transferred to non-current asset held for sale			(3 500)
			157 014
2017			
Land and buildings	37 801	(4 646)	33 155
Plant and equipment	325 814	(170 913)	154 901
Motor vehicles	26 432	(18 875)	7 557
Furniture and fittings	486	(284)	202
Computers	3 262	(1 453)	1 809
	393 795	(196 171)	197 624

Non-current assets held for sale is represented by property situated at 19A Forest Drive, Forest Hill, Kloof, 3624 which has been identified for sale and a process is under way to actively market the property through agents as it is no longer required by the group due to reduced construction activity in the KwaZulu-Natal region. An impairment of R2,1 million was recognised during the current year. The asset relates to the Corporate and Eliminations segment. The recoverable amount which has been determined to be the fair value less costs to sell is R3,5 million. This is noted to be part of level 3 of the fair value hierarchy. The fair value is based on a formal estate agent valuation.

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

	Carrying value at beginning of year R'000	Additions R'000	Acquisition through business combination R'000	Disposals R'000	Depreciation and impairments R'000	Effects of movement in exchange rate R'000	Carrying value at end of year R'000
2018							
Land and buildings	33 155	–	–	–	(2 900)	(189)	30 066
Plant and equipment	154 901	13 961	–	(21 875)	(27 212)	–	119 775
Motor vehicles	7 557	3 903	–	(288)	(1 860)	(52)	9 260
Furniture and fittings	202	69	–	–	(113)	24	182
Computers	1 809	366	–	–	(932)	(12)	1 231
	197 624	18 299	–	(22 163)	(33 017)	(229)	160 514

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

	Carrying value at beginning of year R'000	Additions R'000	Acquisition through business combination R'000	Disposals R'000	Depreciation and impairments R'000	Effects of movement in exchange rate R'000	Carrying value at end of year R'000
2017							
Land and buildings	33 727	8 483	–	(9 500)	(241)	686	33 155
Plant and equipment	143 830	10 037	21 550	(629)	(19 887)	–	154 901
Motor vehicles	9 096	937	–	(338)	(2 138)	–	7 557
Furniture and fittings	383	13	–	(124)	(70)	–	202
Computers	845	903	418	–	(357)	–	1 809
	187 881	20 373	21 968	(10 591)	(22 693)	686	197 624

As at 28 February 2018, the net carrying amount of leased plant and equipment was R6,5 million (2017: R5,7 million).

All moveable assets have been encumbered by either a special or general notarial bond in favour of Absa Bank Limited in order to secure overdraft and other banking facilities as described in note 14. Assets which are under finance agreements are used as security for these specific agreements as described in note 13.

Registers with details of land and buildings are available for inspection by shareholders or their duly authorised representatives at the registered offices of the company and its respective subsidiaries.

Refer to note 38 for disclosures relating to capital commitments.

5. Goodwill

	Cost R'000	Accumulated impairment R'000	Carrying value R'000
Group			
2018			
Esor Construction	273 330	(269 700)	3 630
2017			
Esor Construction	273 330	(207 883)	65 447

The carrying amount of goodwill can be reconciled as follows:

	Carrying value at beginning of year R'000	Impairment R'000	Acquisition through business combination R'000	Carrying value at end of year R'000
2018				
Esor Construction	65 447	(61 817)	–	3 630
2017				
Esor Construction	112 091	(50 274)	3 630	65 447

Goodwill arising from business combinations is allocated to individual reporting units or cash-generating units. Following the group restructure, these reporting units are no longer identifiable. Consequently the smallest CGU which is separately identifiable is Esor Construction. The balance of R3,6 million is attributable to the Tuboseal (Pty) Ltd acquisition that was effective from August 2016.

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

5. Goodwill (continued)

The recoverable amount of this cash-generating unit was estimated based on its value in use. The carrying amount was higher than its recoverable amount and an impairment loss was recognised. An impairment loss of R61,8 million (2017: R50,3 million) was recognised on the goodwill. The recoverable amount was determined internally using the DCF method, as follows:

	2018 R'000	2017 R'000
Esor Construction	68 000	489 391

The CGU has been showing losses for a number of year resulting in a decrease in the performance of the entity as well as the eventual impairment of the investment in the entity.

The value in use is significantly lower than the carrying value of the CGU. This is largely due to the risk factors relating to the construction industry specifically in South Africa being taken into account in the variables used to calculate the value in use.

Value in use was determined by discounting the future cash flows generated from the continuing use of the individual CGUs 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 negative 1,9% for 2019 year based on secured work load and past experience and then at a growth rate of 4,5% thereafter;
- Gross margins were maintained at margins expected in the industry over the forecast period based on past experience;
- Operating expenses were not expected to increase significantly but have been increased in line with revenue growth; and
- A weighted average cost of capital of 18.34% (2017: 16%) was applied in determining the recoverable amount of the cash-generating unit. The discount rate was estimated based on weighted average cost of capital and a targeted debt-equity ratio of 20% (2017: 20%).

We determined the value in use using post-tax cash flows and a pre-tax discount rate on the basis that the outcome will not differ to that determined by discounting pre-tax cash flows using pre-tax discount rates.

The pre-tax discount rate applied in the value-in-use calculation was determined using WACC as a starting point, and was adjusted to reflect the specific amount and timing of the future tax cash flows, though still excluding the effects of any existing temporary differences and available tax losses at the measurement date.

The rate also took into account adjustments for:

- a. Systematic risk premium
- b. Beta
- c. Unsystematic risk premium

Furthermore, we analysed the debt-equity ratio of comparable companies in the construction sector and determined a target ratio based on these which we used to adjust the Beta.

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;
- Forecasted revenues and margins; and
- Working capital levels.

If all assumptions remain unchanged a 1% increase/(decrease) in the discount rate would result in an (decrease)/increase in the value in use of R1 million.

Based on a range of estimates in the above areas, management impaired goodwill by R61,8 million (2017: R50,3 million). The remainder of the difference between the carrying value of the CGU and the value in use was not allocated to the remaining assets within the CGU as they are all stated at their recoverable amounts as at 28 February 2018.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
6. Financial assets and liabilities at fair value through profit or loss				
6.1 Contingent consideration				
The fair value of the contingent consideration receivable for the disposal of the discontinued operation.				
Projected amount	-	-	-	-
Discount adjustment	-	-	-	-
Fair value receivable	-	-	-	-
<i>Reconciled as follows</i>				
Opening balance	-	51 228	-	-
Fair value adjustment	-	(51 228)	-	-
Closing balance	-	-	-	-

6.2 Forward exchange contracts

The group has entered into the following forward exchange contracts which are accounted for as economic hedges. The amounts represent the net Rand equivalents of commitments to sell foreign currencies. The average rates shown include the cost of forward cover.

Valuation technique

Quoted forward points to the contract date are allocated to the spot rate at year-end and this rate is applied to the foreign currency amount in order to determine the fair value of the derivative.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Total change in fair value recognised in profit/(loss)	-	5 843	-	-

Details of these forward exchange contracts are as follows:

	Average rate 2018	Contract value EUR'000 2018	Contract value R'000 2018	Assets/ (liability) R'000 2018	Average rate 2017	Contract value EUR'000 2017	Contract value R'000 2017	Assets/ (liability) R'000 2017
Sell Euros	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

6. Financial assets and liabilities at fair value through profit or loss (continued)

6.2 Forward exchange contracts (continued)

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Disclosed as				
Non-current assets	–	–	–	–
Current liabilities	–	–	–	–
	–	–	–	–

7. Deferred tax

Balance at beginning of year	(1 278)	(17 056)	523	925
Movements during the year				
Translation adjustment	(271)	(289)	–	–
Acquisition through business combination	–	(1 076)	–	–
Movements in FCTR	–	–	–	–
Temporary differences	10 937	17 143	(309)	(402)
Balance at end of year	9 388	(1 278)	214	523
The balance comprises				
Property, plant and equipment	(27 378)	(35 543)	–	–
Provisions and accruals	4 757	20 998	102	76
Retentions receivable	(26 927)	(29 614)	–	–
Advance billings	5 647	2 323	–	–
Allowance for future expenditure	(6 142)	(20 359)	–	–
Assessed losses	58 871	75 042	112	447
Amounts due from customers – contract work in progress	(5 778)	(28 851)	–	–
Inventory	6 574	14 970	–	–
Other	(236)	(244)	–	–
	9 388	(1 278)	214	523
Non-current assets	17 323	31 044	214	523
Non-current liabilities	(7 935)	(32 322)	–	–
	9 388	(1 278)	214	523

Deferred tax assets have been recognised only to the extent that the realisation thereof is probable. The movement in deferred tax has been recognised as part of profit or loss.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
8. Investments in subsidiaries				
Shares at cost less impairment	–	–	185 068	588 051
Details of the investments in subsidiaries are shown in notes 39 and 42.				

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
9. Investment and loans to joint venture				
The group had interests in the following property development joint venture following its disposal of 50% of the equity:				
Safdev Tanganani (Pty) Limited	50%	50%	–	–
The summarised statement of financial position is as follows:				
Assets				
Non-current assets				
Deferred tax	644	620	–	–
Current assets				
Inventories	74 507	66 511	–	–
Trade and other receivables	970	970	–	–
Cash and cash equivalents	50	42	–	–
Total assets	76 171	68 143	–	–
Equity	388	450	–	–
Liabilities				
Non-current liabilities				
Unsecured loans	75 783	66244	–	–
Current liabilities				
Trade and other payables	–	1449	–	–
Total liabilities	76 171	68 143	–	–
Net assets	388	450	–	–
50% of net assets	194	225	–	–
Summarised statement of comprehensive income				
Revenue	–	–	–	–
Cost of sales	–	–	–	–
Gross profit	–	–	–	–
Overhead expenses	(87)	(82)	–	–
Interest income	–	–	–	–
Interest expense	–	–	–	–
Taxation	24	23	–	–
Loss after taxation	(63)	(59)	–	–

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
9. Investment and loans to joint venture				
<i>(continued)</i>				
Reconciliation of summarised financial information				
Reconciliation of the summarised financial information to the carrying amount of its interest in the joint venture:				
Opening net assets of 1 March	42 680	51 892	–	–
Interest	4 719	5 788	–	–
Repayments	(9 508)	(15 000)	–	–
Underclaim recognised	15 000	–		
Carrying value	52 891	42 680	–	–

This loan is unsecured and bears interest at the prime rate per annum plus 2%. This loan is intended to finance the joint venture and is not expected to be repaid or settled until the joint venture generates sufficient cash flows.

The principal place of business of this joint venture is Cedarwood House, Ballywoods Office Park, 33 Ballyclare Drive, Bryanston, Gauteng.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
10. Inventories				
Consumables	12 702	15 581	–	–
Housing property held for development and resale	78 830	72 327	–	–
Form work and scaffolding	6 389	10 649	–	–
	97 921	98 557	–	–

Housing property with a book value of R69,0 million (2017: R69,0 million) is encumbered by mortgage bonds referred to in note 14.

	Interest rate		GROUP		COMPANY	
	2018 %	2017 %	2018 R'000	2017 R'000	2018 R'000	2017 R'000
11. Unsecured loans						
Esor Construction Proprietary Limited	–	–	–	–	68 404	67 927

These loans are interest free and repayable on demand.

A subordination agreement was entered into by Esor Limited and its subsidiaries, subordinating any intra-group debt claims the group companies may have against each other to the preferential debts owed to ABSA Bank Limited for the duration of the funding arrangements entered into (refer to notes 14 and 13).

The balance of impairments raised against a loan to Esor Africa is R282 million (2017: R282 million).

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
12. Trade and other receivables				
Trade receivables	214 770	466 220	–	–
Sundry debtors	38 572	55 866	–	–
	253 342	522 086	–	–
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	7 238 190	6 343 629	–	–
Amounts certified	(7 238 475)	(6 259 588)	–	–
Retentions receivable	96 266	92 631	–	–
	95 981	176 672	–	–
Amounts due from contract customers	118 789	278 256	–	–
Amounts due from contract customers excluding provisions for onerous contract	148 489	328 956		
Onerous contract provisions (refer to note 44)	(29 700)	(50 700)		
Amounts due to contract customers (refer to note 17)	(22 808)	(101 584)	–	–
	95 981	176 672	–	–

Included in amounts due to and from customers are advance payments totalling R21,2 million (2017: R8 million). These advances are repaid over the course of the contracts to which they relate.

The total carrying value of trade receivables have been pledged to secure the borrowing facilities mentioned in notes 14 and 13.

Claims and variations on contracts are only recognised if senior management is confident that it is highly probable that the claims and variations can be reliably measured and the customer will approve such items. In addition, negotiations for recognising such a claim have reached an advanced stage. During the year the group has reassessed all claims and their various stages of finalisation as well as the likelihood of the claims being settled within the foreseeable future. In the reassessment of all claims and uncertified revenue it was decided to impair uncertified revenue to the value of R61 million, major reversals include claims against Eskom, eThekweni Municipality, Mopani District Municipality and various smaller claims, including insurance settlements. In the assessment of impairment the group has taken into account the current construction environment, government, parastatal and municipalities ability to pay as well as the protracted process to finalise claims. Amounts due from customers also included provisions for onerous contracts of R29,7 million (2017: R50,7 million). Uncertified revenue of R48,4 million is still reflected in the group results and management is confident that this amount will be collected within the foreseeable future.

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
13. Share capital and premium				
Authorised				
500 000 000 ordinary shares of R0,001 each	500	500	500	500
Issued				
493 981 787 (2017: 493 981 787) ordinary shares of R0,001 each	493	493	493	493
Less: 21 012 250 (2017: 21 012 250) shares held by the Esor Broad Based Share Ownership Scheme	(21)	(21)	–	–
Less: 9 231 762 (2017: 9 231 762) shares held by Esor Construction (Pty) Limited	(9)	(9)	–	–
	463	463	493	493
Share premium	616 773	616 773	643 174	643 174
Balance at beginning of year	616 773	580 649	643 174	607 050
Premium on rights offer shares issued	–	37 444	–	37 444
Share issue expenses written off	–	(1 320)	–	(1 320)
	617 236	617 236	643 667	643 667

Share movements

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

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
14. Secured borrowings				
Instalment sale agreements	10 480	20 666	–	–
Mortgage bonds	33 655	35 040	–	–
Shareholders loan	42 563	–	–	–
Other short-term loans	4 248	14 977	–	–
Total secured borrowings	90 946	70 683	–	–
Current portion included in current liabilities	(32 614)	(31 869)	–	–
	58 332	38 814	–	–

14. Secured borrowings *(continued)*

Instalment sale agreements are secured over plant and equipment referred to in note 4. Interest is levied at rates of between prime plus 0,5% and prime plus 4,0%. Instalment sale agreements are for periods not exceeding 60 months. The last repayment date on the instalment agreements is May 2020.

The mortgage bonds are secured over development land referred to in note 9 and described as Portions 109 and 110 of the Farm Uitvlugt Number 434, Province of Gauteng and Portion 143 of the Farm Hartebeeshoek 303, Northern Province, with carrying values totalling R69,0 million (2017: R69,0 million). These loans are repaid on a *pro rata* basis as each developed stand is transferred. This is expected to result in repayment of R4 million in the 2018 year-end and a minimum of R4 million per year thereafter. R33,6 million of these mortgage bonds are interest free (2017: R34,1 million).

The shareholders' loan is from Geomer Investments (Pty) Ltd, the major shareholder of the group. This loan was provided in three tranches between August 2017 and February 2018. The repayment of these loans are subject to a minimum monthly repayment of R2 million repayable from 31 August 2018. Subsequent to year-end Esor repaid R8,5 million that was linked to a payment from Eskom.

Other short-term loans bear interest at prime plus 3% and are repayable in full by 28 February 2019.

At year-end, the prime interest rate was 10,25% (2017: 10,5%).

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
15. Provisions				
Staff bonuses				
Opening balance	1 133	1 716	—	—
Created	—	—	—	—
Utilised	—	—	—	—
Transferred to trade and other payables	(1 133)	(1 716)	—	—
Closing balance	—	—	—	—
Contractual obligations				
Opening balance	—	15 324	—	—
Created/(reversed)	—	(15 324)	—	—
Closing balance	—	—	—	—
Total provisions	—	—	—	—

The provision for staff bonuses was reclassified as trade and other payables during the comparative year.

The contractual obligation related to the group's obligation to build a section of road and a bridge as part of the negotiated terms of the Orchards property development. This road was completed before the end of the 2017 financial year.

Onerous contract provisions are included in amounts due from customers and amounts due to customers. Refer to note 13.

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
16. Borrowing facilities				
Available facilities				
– asset finance	25 809	132 200	–	–
– contract guarantees	823 936	896 400	–	–
– overdraft	50 000	30 000	–	–
– trade finance	–	60 000	–	–
– forward exchange contracts	55 000	55 000	–	–
– mortgage bond	33 655	35 040	–	–
	988 400	1 208 640	–	–
Facilities utilised				
– asset finance	10 480	20 666	–	–
– contract guarantees	417 475	421 755	–	–
– overdraft	45 947	9 678	–	–
– trade finance	–	17 808	–	–
– mortgage bonds	33 655	35 040	–	–
	507 557	504 947	–	–
Companies within the group have provided sureties to secure these facilities (refer to notes 10 and 11). The overdraft facility through ABSA is secured through notorial bonds registered over plant and equipment for the duration of the facility.				
17. Trade and other payables				
Trade payables	152 506	187 850	1 009	1 359
Accruals	20 949	27 595	490	826
Amounts due to customers (refer to note 12)	22 808	101 584	–	–
Sundry payables	30 352	3 516	270	269
	226 615	320 545	1 769	2 454
There are no amounts included in amounts due to customers in respect of future losses on contracts (2017: Nil).				
18. Revenue				
Construction contract revenue	958 878	1 306 785	–	–
Property development revenue	479	66 263	–	–
Management fees reclassified from other income	–	–	–	7 800
Management fees	–	–	8 400	–
	959 357	1 373 048	8 400	7 800

Contract revenue comprises the value of work done in respect of contracts, net of value-added taxation.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
19. Other income				
Profit on disposal of plant and equipment	2 734	1 085	–	–
Rebates	–	9 172	–	–
Loss of profit award	–	10 000	–	–
Sundry income	1 540	8 550	–	7 800
Reclassification to revenue	–	–	–	(7 800)
	4 274	28 807	–	–

Management fees have been reclassified to revenue as based on the nature of transactions the charging of management fees has become part of the nature of the business of the company.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
20. Results from operating activities				
Results from operating activities are stated after taking into account the following items which require separate disclosure:				
Expenditure				
Auditor remuneration	2 934	2 391	78	971
– Audit fees	2 779	2 287	78	971
– Other services	155	104	–	–
Depreciation of property, plant and equipment	33 017	22 693	–	–
Loss on disposal of property, plant and equipment	4 176	1 203	–	–
Payroll costs	368 834	445 244	6 440	6 418
Operating lease charges	78 157	68 236	–	–
Other items				
Fair value adjustment in contingent consideration	–	51 228	–	–
Retrenchment costs	13 606	11	–	–
Loss on Northern Aqueduct contract	60 243	101 675	–	–
Loss on Western Aqueduct contract	118 976	73 506	–	–
Impairment of goodwill	61 817	50 274	–	–
Impairment of investment in subsidiary (refer to note 8)	–	–	402 983	94 606
Reversal of impairment of long-term receivables	–	(3 875)	–	–
Number of employees at year-end (individuals)	1 478	2 495	2	2

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
21. Finance income				
Interest income on bank deposits	191	712	–	–
Exchange gain on amounts owing to/from subsidiaries and foreign branches	–	35	–	–
Interest on loan to joint venture	1 019	5 788	–	–
Other	–	7 135	–	–
	1 210	13 670	–	–
22. Finance costs				
Interest expense on financial liabilities measured at amortised cost	9 242	7 263	–	–
Interest on shareholders' loan	1 563	–	–	–
Preference dividends	–	711	–	–
Exchange loss on amounts owing to/from subsidiaries and foreign branches	10	274	–	–
	10 815	8 248	–	–
The above financial income and expense include the following in respect of assets/(liabilities) not at fair value through profit or loss:				
	(10 614)	(6 551)	–	–
Total finance income on financial assets	191	712	–	–
Total finance expense on financial liabilities	(10 805)	(7 263)	–	–
23. Taxation (charge)/income				
South African				
Normal taxation	(14 708)	1 164	–	–
– current taxation	(4 849)	114	–	–
– prior year (over)/underprovision	(9 859)	1 050	–	–
Deferred taxation	11 471	(13 993)	(309)	401
– current taxation	5 067	(14 106)	(513)	288
– prior year overprovision	6 404	113	204	113
Capital gains tax	–	–	–	–
Foreign				
Normal taxation	(2 038)	312	–	–
– current taxation	(607)	312	–	–
– prior year as provision	(1 431)	–	–	–
Deferred taxation	(534)	(3 150)	–	–
– current taxation	(534)	(3 150)	–	–
– prior year overprovision	–	–	–	–
	(5 809)	15 667	(309)	401

	GROUP		COMPANY	
	2018 %	2017 %	2018 %	2017 %
23. Taxation (charge)/income <i>(continued)</i>				
Reconciliation of tax rates:				
Normal rate of taxation	28	28	28	28
Adjusted for:	(30)	(18)	(28)	(28)
– foreign tax rates	–	–	–	–
– prior year (over)/underprovision	(1)	(1)	–	–
– contingent consideration	–	(9)	–	–
– goodwill impairment	(6)	(9)	–	–
– fair value adjustment assets	(1)	–	–	–
– impairment of investment in subsidiary	–	–	(28)	(28)
– other non-deductible expenditure	–	(1)	–	–
– other	–	2	–	–
– losses not raised	(22)	–	–	–
	(2)	10	–	(0)

Timing differences not accounted for under deferred taxation include the result of certain subsidiaries where deferred taxation on assessed losses have not been provided.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Estimated tax losses				
Opening balance	(270 333)	(234 264)	(2 326)	(2 826)
Changes in current year	(183 198)	(36 069)	1 922	500
Closing balance	(453 531)	(270 333)	(404)	(2 326)
Losses utilised	210 522	268 914	403	2 326
Assessed loss not utilised	(243 009)	(1 419)	–	–
Deferred tax assets have been recognised only to the extent that the realisation thereof is probable.				
24. Earnings per share				
Basic loss per share (cents)	(66,2)	(38,1)	(81,4)	(24,1)
Diluted loss per share (cents)	(64,9)	(36,7)	(86,7)	(24,1)
Headline loss per share (cents)	(52,1)	(24,4)	(81,4)	(0,3)
Diluted headline loss per share (cents)	(51,0)	(23,5)	(86,7)	(0,3)
Dividend per share (cents)	–	–	–	–

Notes to the consolidated and separate financial statements *(continued)*

for the year ended 28 February 2018

24. Earnings per share *(continued)*

The calculation of the headline loss per share attributable to the ordinary equity holders of the parent is based on the following information:

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Reconciliation of headline loss:				
Loss after tax	(306 939)	(139 756)	(402 125)	(95 764)
Net (loss)/profit on disposal of property, plant and equipment	1 442	85	–	–
Impairment of property, plant and equipment, investments and goodwill	63 912	50 274	–	94 606
Headline loss	(241 585)	(89 397)	(402 125)	(1 158)
Weighted average number of ordinary shares:				
Issued ordinary shares	493 981 787	493 981 787	493 981 787	493 981 787
Effect of own shares held	(30 244 012)	(30 244 012)	–	–
Effect of shares issued	–	(96 636 874)	–	(96 636 874)
Weighted average number of shares	463 737 775	367 100 901	493 981 787	397 344 913
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	463 737 775	367 100 901	463 737 775	397 344 913
Effect of share incentive allocations	9 532 108	13 788 333	–	–
Diluted weighted average number of shares	473 269 883	380 889 234	463 737 775	397 344 913
25. Cash (utilised in)/generated by operations				
Loss before taxation	(301 130)	(155 422)	(401 816)	(95 363)
Adjusted for:				
– finance income	(5 929)	(13 635)	–	–
– profit on disposal of property, plant and equipment	(2 734)	(1 085)	–	–
– loss on disposal of property, plant and equipment	4 176	1 203	–	–
– foreign currency adjustment	2 146	4 009	–	–
– depreciation of property, plant and equipment	33 017	22 693	–	–
– reversal of impairment of loans and receivables	–	(3 876)	–	–
– impairment of goodwill and investments	61 817	50 274	402 983	94 606
– amortisation and fair value adjustments of financial assets and liabilities	–	51 228	–	–
– share-based payments	864	485	–	–
– finance costs	10 815	7 974	–	–

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
25. Cash (utilised in)/generated by operations <i>(continued)</i>				
Operating profit before working capital changes	(196 958)	(36 152)	1 167	(757)
Working capital changes	160 450	14 806	(685)	817
Decrease/(increase) in trade and other receivables	253 744	(21 981)	–	–
Decrease in inventories	636	14 085	–	–
(Decrease)/increase in trade and other payables	(93 930)	37 829	(685)	817
Decrease in provisions	–	(15 127)	–	–
Cash generated from/(utilised by) operations	(36 508)	(21 346)	482	60
26. Taxation refunded/(paid)				
Amounts receivable at beginning of year	13 694	14 838	–	–
Acquisition through business combination	–	9	–	–
Current tax charged to profit or loss	(16 746)	(1 476)	–	–
Translation difference	(2 589)	(2 630)	–	–
Amount payable/(receivable) at end of year	5 032	(13 694)	–	–
Taxation paid	(609)	(2 953)	–	–

27. Acquisition through business combinations

On 1 September 2016, the Esor group acquired the entire issued share capital of Tuboseal Services (Pty) Limited and the business operations of Tuboseal (Pty) Limited for R37,5 million in cash.

The group is still in the process of integrating the synergies throughout by sharing the skills of the Tuboseal operation into the rest of the Esor Group as well as the expansion of the Tuboseal products into the other regions where Esor has a footprint to significantly improve the results of Tuboseal. The results to date is in line with management's expectations and forecasts.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Property, plant and equipment	–	21 968	–	–
Inventories	–	4 567	–	–
Unsecured loans	–	10	–	–
Trade and other receivables	–	14 696	–	–
Cash and cash equivalents	–	1 036	–	–
Secured borrowings	–	(3 053)	–	–
Deferred taxation	–	(1 076)	–	–
Trade and other payables	–	(5 400)	–	–
Taxation	–	9	–	–
Total net assets	–	32 757	–	–
Goodwill on acquisition	–	3 630	–	–
Consideration paid net of cash	–	36 387	–	–

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
28. Cash and cash equivalents				
Cash and cash equivalents included in the statement of cash flows include the following amounts:				
Cash and cash equivalents	9 291	5 360	6	1
Bank overdraft	(45 947)	(27 487)	–	–
Cash and cash equivalents at bank and on hand	(36 656)	(22 127)	6	1
29. Loans and long-term receivables				
29.1 Loan – Kathu Property Developers Proprietary Limited				
Opening balance	40 578	35 428	–	–
Interest charged	–	1 274	–	–
Reversal of impairment	–	3 876	–	–
Closing balance	40 578	40 578	–	–

Interest has not been charged in the current year as the underlying asset is valued at market value, see below (2017 – interest is charged at prime plus 2% per annum), the loan was due to be repaid on 30 September 2015. Kathu Property Developers Proprietary Limited was placed into business rescue on 26 November 2015 after defaulting on the repayment of this loan. This loan is secured by a first mortgage bond over Erven 8434, 8435 and 8436 Kathu, Gamagara Municipality, Northern Cape Province, and as such is a preferential creditor in the business rescue plan. This plan provides for the sale of a section of land to cover certain costs of the business rescue practitioner and certain concurrent creditors and then to transfer the remainder of land to Esor. Given the valuation of the land and the offer to purchase on a section thereof approximating the effective rate per square metre applicable to the loan and security held, the loan has not been impaired. Transfer of the land into the name of Esor Construction (Pty) Ltd is currently being attended to by the company's transfer attorneys.

29.2 Loans – English Breeze Investments Private Limited

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
This loan is unsecured and interest free and repayable through dividend declarations when the company has adequate reserves to declare dividends. The loan was provided to facilitate the purchase of the 51% share in the Zimbabwean subsidiary. Esor maintains effective control over the subsidiary until the loan has been repaid in full.	761	761	–	–
	761	761	–	–
Disclosed as follows:				
Non-current assets	761	761	–	–
Current assets	40 578	40 578	–	–
	41 339	41 339	–	–

30. Directors' emoluments

	Basic salary R'000	Bonus R'000	Directors' base fee R'000	Directors' attendance fee R'000	Total short-term benefits R'000	Post- employ- ment benefits R'000	Total before share- based payments R'000	Share- based payments R'000	Total R'000
2018									
Dr O Franks	–	–	53	166	219	–	219	–	219
B Krone	–	–	74	222	296	–	296	–	296
R Masemene	–	–	41	172	213	–	213	–	213
HJ Sonn ¹	–	–	47	141	188	–	188	–	188
H Takolia ²	–	–	15	47	62	–	62	–	62
B Atkinson ³	1 826	–	–	–	1 826	132	1 958	53	2 011
W van Zyl	3 021	–	–	–	3 021	409	3 430	124	3 554
From the company	4 847	–	230	748	5 825	541	6 366	177	6 543
Total emoluments	4 847	–	230	748	5 825	541	6 366	177	6 543
2017									
Dr O Franks	–	–	56	167	223	–	223	–	223
B Krone	–	–	72	216	288	–	288	–	288
R Masemene ⁴	–	–	18	52	70	–	70	–	70
K Moloko ⁵	–	–	13	38	51	–	51	–	51
HJ Sonn	–	–	62	188	250	–	250	–	250
B Atkinson	1 766	107	–	–	1 873	129	2 002	53	2 055
W van Zyl	2 947	189	–	–	3 136	398	3 534	124	3 658
From the company	4 713	296	221	661	5 891	527	6 418	177	6 595
Total emoluments	4 713	296	221	661	5 891	527	6 418	177	6 595

1. Resigned 27 October 2017.
2. Appointed 16 November 2017.
3. Resigned 29 May 2018.
4. Appointed 19 August 2016.
5. Resigned 24 June 2016.

	Opening balance	Allocated	Forfeited	Exercised	Closing balance	Share price at award	Strike date
Share-based payments							
2018							
B Atkinson							
January 2016 award	750 000	–	–	–	750 000	23c	2018/07/01
February 2017 award	320 000	–	–	–	320 000	38c	2019/07/01
February 2018 award	–	–	–	–	–		
	1 070 000	–	–	–	1 070 000		

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

30. Directors' emoluments (continued)

	Opening balance	Allocated	Forfeited	Exercised	Closing balance	Share price at award	Strike date
W van Zyl							
January 2016 award	1 750 000	–	–	–	1 750 000	38c	2018/07/01
February 2017 award	350 000	–	–	–	350 000	23c	2019/07/01
February 2018 award	–	–	–	–	–		
	2 100 000	–	–	–	2 100 000		
Total	3 170 000	–	–	–	3 170 000		
2017							
B Atkinson							
January 2016 award	750 000	–	–	–	750 000	38c	2018/07/01
February 2017 award	–	400 000	(240 000)	–	160 000	23c	2019/07/01
	750 000	400 000	(240 000)	–	910 000		
W van Zyl							
January 2016 award	1 750 000	–	–	–	1 750 000	38c	2018/07/01
February 2017 award	–	875 000	(525 000)	–	350 000	23c	2019/07/01
	1 750 000	875 000	(525 000)	–	2 100 000		
Total	2 500 000	1 275 000	(765 000)	–	3 010 000		

All awards have a zero strike price.

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

Prescribed officers' remuneration is outlined in note 41.

The group has disclosed the prescribed officer details and remuneration in note 43 to the annual financial statements.

The directors do not receive any other long-term benefits or termination benefits.

31. 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 financial statements.

31. Risk management *(continued)*

Overview *(continued)*

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 or known customers. In addition, large upfront payments and guarantees are requested in order to minimise exposure.

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

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 14. There are no restrictive funding arrangements.

Notes to the consolidated and separate financial statements *(continued)*

for the year ended 28 February 2018

31. Risk management *(continued)*

Market risk

Market risk is the risk that changes in market prices, such as 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.

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 interstate 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 Esor group's ordinary shares. Their holding is currently 4,25% (2017: 4,25%). This shareholding is part of the group's Broad-based Black Economic Empowerment strategy. The board seeks to maintain a balance between the higher returns with higher levels of borrowings and the security afforded by a sound and conservative capital position. The group's target is to achieve a return on weighted average capital of more than 16% (2017: 16%).

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
32. Credit risk				
The maximum exposure to credit risk at the reporting date was:				
Contract debtors	214 770	466 220	–	–
Sundry debtors	38 572	55 866	–	–
Financial assets at fair value through profit or loss	–	–	–	–
Loans and long-term receivables	41 339	41 339	–	–
Unsecured intra-group loans	–	–	68 404	67 927
Cash and cash equivalents	9 291	5 360	6	1
	303 972	568 785	68 410	67 928
The maximum exposure to credit risk by geographical concentration for financial assets at the reporting date was:				
South Africa	251 799	551 528	68 410	67 928
Botswana	2 426	6 571	–	–
Zimbabwe	23 824	899	–	–
Common Monetary Area countries (Swaziland, Namibia)	25 923	9 787	–	–
	303 972	568 785	68 410	67 928
The ageing of trade receivables and loans and receivables at the reporting date was:				
Not past due	170 259	435 254	–	–
Past due not impaired	44 511	30 966	–	–
Past due and impaired	5 584	5 385	–	–
	220 354	471 605	–	–
The movement in the allowance for impairment in respect of trade receivables during the year was as follows:				
Balance beginning of year	5 385	8 500	–	–
Impairment allowance raised/(utilised)	199	(3 115)	–	–
Balance at end February	5 584	5 385	–	–

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 remeasurement and interim adjustments by the customer or the customer's representative. Long-term loans and receivables are past due and impaired as shown in note 27.

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

32. Credit risk (continued)

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

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Customer				
eThekweni Municipality	39 354	30 855	–	–
Eskom Holdings SOC Limited	16 179	30 363	–	–
Vhembe District Municipality	16 284	16 995	–	–
City of Cape Town	3 394	10 177	–	–
South 32 SA Coal Holdings (Pty) Limited	1 801	9 338	–	–
Greater Sekhukune District Municipality	2 995	9 318	–	–
Rand Water	11 251	6 263	–	–

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.

33. Liquidity risk

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

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Non-derivative financial liabilities				
<i>Secured borrowings</i>				
Carrying amount	90 946	98 170	–	–
Contractual cash flows	127 318	102 015	–	–
One year or less	45 094	59 824	–	–
Two to five years	34 224	28 063	–	–
More than five years	48 000	14 128	–	–
<i>Trade and other payables</i>				
Carrying amount	203 807	218 961	1 769	2 454
Contractual cash flows	203 807	218 961	1 769	2 454
One year or less	203 807	218 961	1 769	2 454
<i>Other financial liabilities* (outside scope of IAS 39)</i>				
Carrying amount	22 808	101 584	–	–
Contractual cash flows	22 808	101 584	–	–
One year or less	22 808	101 584	–	–

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

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
33. Liquidity risk <i>(continued)</i>				
Total non-derivative financial liabilities				
Carrying amount	317 561	418 715	1 769	2 454
Contractual cash flows	353 933	422 560	1 769	2 454
One year or less	271 709	380 369	1 769	2 454
Two to five years	34 224	28 063	–	–
More than five years	48 000	14 128	–	–

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

34. 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	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Gross exposure in the statement of financial position:				
Cash and cash equivalents				
USD	5 180	602	–	–
BWP	630	409	–	–
	5 810	1 011	–	–

Amounts owing to subsidiaries and branches are eliminated on consolidation. However, these amounts do impact profit or loss within the group's 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.

	Description
Currency code	
USD	United States Dollar
MUR	Mauritian Rupee
ZAR	South African Rand
BWP	Botswanan Pula

The following significant exchange rates applied during the year:

	2018 Average rate	2018 Spot rate	2017 Average rate	2017 Spot rate
Group and company				
Denomination				
United States Dollar	12,9246	11,5765	14,8694	12,8363
Mauritian Rupee	0,3648	0,3404	0,2640	0,2900
Botswana Pula	1,0793	1,1593	1,1772	1,1685

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

34. Currency risk (continued)

Exposure to currency risk

Sensitivity analysis

A 10% strengthening of the ZAR against foreign currencies at the reporting date would have reduced profit or loss (after tax) and equity 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 2017. The translation of the foreign operations is affected by movements in the exchange rate which directly impact 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) and equity by the amounts shown below:

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Effect on profit or loss (after tax) and equity for all currencies:				
US Dollar	373	5	—	—
Botswanan Pula	45	46	—	—
Mauritian Rupee	—	(31)	—	—
Effect on profit on significant currencies	418	20	—	—

35. Interest rate risk

At the reporting date the interest rate profile of the group's and company's interest-bearing financial instruments was:

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Variable rate instruments				
Financial assets	102 760	88 618	—	—
Financial liabilities	(136 893)	(98 170)	—	—
	(34 133)	(9 552)	—	—

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/(loss) after tax and equity 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 2017. A decrease in interest rates would have an equal but opposite effect on profit or loss after tax and equity.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Profit or (loss) after tax and equity				
Variable rate instruments	(986)	(69)	—	—
	(986)	(69)	—	—

36. Classification of financial instruments

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

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

	Loans and receivables R'000	Liabilities at amortised cost R'000	Financial assets and liabilities at fair value through profit or loss ¹ R'000	Other financial assets and liabilities ² R'000	Total carrying amount R'000	Fair value R'000
Group 2018						
Financial assets						
Trade and other receivables	118 504	–	–	96 266	214 770	214 770
Cash and cash equivalents	9 291	–	–	–	9 291	9 291
Loans and receivables	41 339	–	–	–	41 339	41 339
	169 134	–	–	96 266	265 400	265 400
Financial liabilities						
Non-current portion of secured borrowings	–	58 332	–	–	58 332	58 332
Trade and other payables	–	226 615	–	–	226 615	226 615
Current portion of secured borrowings	–	32 614	–	–	32 614	32 614
Bank overdraft	–	45 947	–	–	45 947	45 947
	–	363 508	–	–	363 508	363 508
Group 2017						
Financial assets						
Trade and other receivables	429 455	–	–	92 631	522 086	522 086
Cash and cash equivalents	5 360	–	–	–	5 360	5 360
Loans and receivables	41 339	–	–	–	41 339	41 339
	476 154	–	–	92 631	568 785	568 785
Financial liabilities						
Non-current portion of secured borrowings	–	38 814	–	–	38 814	38 814
Trade and other payables	–	318 632	–	–	318 632	318 632
Current portion of secured borrowings	–	31 869	–	–	31 869	31 869
Bank overdraft	–	27 487	–	–	27 487	27 487
	–	416 802	–	–	416 802	416 802

1. Designated on initial recognition.

2. Outside the scope of IAS 39.

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

36. Classification of financial instruments (continued)

	Loans and receivables R'000	Liabilities at amortised cost R'000	Total carrying amount R'000	Fair value R'000
Company 2018				
Financial assets				
Unsecured loans	68 404	–	68 404	68 404
Cash and cash equivalents	6	–	6	6
	68 410	–	68 410	68 410
Financial liabilities				
Trade and other payables	–	1 769	1 769	1 769
	–	1 769	1 769	1 769
Company 2017				
Financial assets				
Unsecured loans	67 927	–	67 927	67 927
Cash and cash equivalents	1	–	1	1
	67 928	–	67 928	67 928
Financial liabilities				
Trade and other payables	–	2 454	2 454	2 454
	–	2 454	2 454	2 454

* Outside the scope of IAS 39.

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:

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.

Loans and receivables

The fair value of third-party loans and receivables is estimated at its carrying value as these instruments are mainly 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.

37. Equity-settled share incentive plan

During 2016 the group introduced the Esor Share Incentive Plan which comprises both a Restricted Share Plan and a Performance Share Plan. The scheme allows executive directors and senior employees to earn a long-term incentive to assist with the retention and reward of selected employees.

Shares are granted to employees for no consideration. These shares participate in dividends and shareholder rights from grant date.

The vesting of the shares is subject to continued employment for a period of three years or the employee will forfeit the shares.

On resignation, the employee will forfeit any unvested shares. On death or retirement only a portion of the shares will vest, calculated based on the number of months worked over the total vesting period.

In terms of IFRS 2, the transaction is measured at fair value of the equity instruments at the grant date. The fair value takes into account that the employees are entitled to dividends from the grant date.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Number of shares granted and remaining at year-end	11 018 333	5 998 333	–	–
Share price at grant date (cents)	39	39	–	–
Employee turnover probability	5%	5%	–	–
Vesting date	2019/06/30	2019/06/30	–	–
Share-based payment expense recognised	864	485	–	–

The share-based payment expenses was calculated with the assistance of independent valuer using a combination of Monte Carlo for the Performance Share Plan and the value of the underlying share on grant date for the Restricted Share Plan.

38. Related parties

During the year the following arm's length transactions took place with subsidiaries and related parties:

		GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Party					
Esor Construction (Pty) Limited – subsidiary	Management fees	–	–	8 400	7 800
Esor Africa (Pty) Ltd – subsidiary	Rental expense	–	–	(4 185)	(3 513)
Geomer Investments (Pty) Ltd – shareholder	Interest expense	1 563	–	–	–
Jaccoll Investments (Pty) Limited – subsidiary of shareholder	Rental expense	2 467	–	–	–

Directors' emoluments are disclosed in note 30.

Prescribed officers' emoluments are disclosed in note 43.

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
38. Related parties (continued)				
Related party balances				
Esor Construction (Pty) Limited – subsidiary	–	–	68 404	67 927
Geomer Investments (Pty) Ltd – shareholder	(42 563)	–	–	–

	2018 R	2017 R	2018 %	2017 %	2018 R'000	2017 R'000
39. Investments in subsidiaries						
Brookmay Properties (Pty) Limited						
100 ordinary shares of R1 each at cost	–	100	–	100	*	*
Esor Africa (Pty) Limited						
102 ordinary shares of R1 each at cost	102	102	100	100	8 910	8 910
Esor Construction (Pty) Limited 30 000 ordinary shares of 1 cent each at cost	300	300	100	100	673 746	673 746
Less: Accumulated impairment of investment in Esor Construction (Pty) Limited					(497 589)	(94 606)
Esor Civils (Pty) Limited						
100 ordinary shares of R1 each at cost	100	100	100	100	*	*
Esor Pipelines (Pty) Limited						
1 000 ordinary shares of R1 each at cost	100	100	100	100	1	1
Esor Property Developments (Pty) Limited	100	100	100	100	*	*
					185 068	588 051

* Less than R1 000.

An impairment loss of R403 million (2017: R94,6 million) was recognised in the separate financial statements on the investment in subsidiary company Esor Construction Proprietary Limited following the losses suffered by the company.

We compared the value in use as determined in the goodwill impairment assessment to the net asset value of Esor Construction to determine the appropriateness of the impairment to be recognised in the current year.

Refer to note 40 for further information on subsidiary companies.

40. 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:

	Within one year 2018 R'000	Within two to five years 2018 R'000	More than five years 2018 R'000	Within one year 2017 R'000	Within two to five years 2017 R'000	More than five years 2017 R'000
Group						
Land and buildings	2 189	11 875	9 836	2 062	7 631	12 025
Plant and vehicles	342	199	–	342	200	–
Office equipment	486	121	–	800	639	–
	3 017	12 195	9 836	3 204	8 470	12 025

Capital commitments

Group

At year-end there were no commitments for the acquisition of plant and equipment (2017: Nil). The group has a capital expenditure budget of R20 million for the 2019 financial year. Any additions will be utilised to expand the operating capacity of the group. The purchase of any 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.

41. Segmental analysis

Operating segments

The group has two reportable segments, as described in the accounting policy note 2.22, which are the group's strategic business units. Comparative information has been restated in line with the new reporting segments.

	Esor Construction R'000	Esor Developments R'000	Corporate and eliminations R'000	Consolidated R'000
Group				
2018				
External revenue	958 878	479	–	959 357
Inter-segment revenue	79 439	–	(79 439)	–
Segment revenue	1 038 317	479	(79 439)	959 357
Segment result				
Loss before interest and taxation	(146 316)	(4 957)	(140 252)	(291 525)
Net finance (cost)/income	(3 448)	505	(6 663)	(9 606)
Taxation	731	(11)	(6 528)	(5 808)
Segment (loss)/profit after tax	(149 033)	(4 463)	(153 443)	(306 939)

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

41. Segmental analysis (continued)

	Esor Construction R'000	Esor Developments R'000	Corporate and eliminations R'000	Consolidated R'000
Segment assets	514 017	85 983	36 305	636 305
Segment liabilities	334 122	40 325	2 082	376 529
Capital and non-cash items				
Additions to property, plant and equipment	17 864	–	435	18 299
Depreciation	29 072	–	3 945	33 017
Impairment	–	–	(61 817)	(61 817)
Number of employees	1 431	3	44	1 478
2017				
External revenue	1 306 785	66 263	–	1 373 048
Inter-segment revenue	35 511	–	(35 511)	–
Segment revenue	1 342 296	66 263	(35 511)	1 373 048
Segment result				
(Loss)/profit before interest and taxation	(66 288)	3 594	(98 150)	(160 844)
Net finance (cost)/income	(2 276)	(703)	8 401	5 422
Taxation	–	–	15 666	15 666
Segment (loss)/profit after tax	(68 564)	2 891	(74 083)	(139 756)
Segment assets	825 026	90 445	102 506	1 017 977
Segment liabilities	391 207	51 509	8 467	451 183
Capital and non-cash items				
Additions to property, plant and equipment	–	–	20 373	20 373
Depreciation	–	–	22 693	22 693
Impairment reversal	–	–	(3 876)	(3 876)
Number of employees	2 234	2	259	2 495

Revenue generated from significant customers includes:

		Revenue	
		2018	2017
		R'000	R'000
Customer	Business unit		
Eskom Holdings SOC Limited	Construction	358 526	505 350
eThekweni Municipality	Construction	121 165	162 731
Vhembe District Municipality	Construction	52 749	67 563
Orchards Developments (Pty) Limited	Developments	720	66 263
uThukela District Municipality	Construction	14 516	53 929
Greater Sekhukhune District Municipality	Construction	2 165	44 380
Rand Water	Construction	54 376	42 310
Umgenti Water	Construction	2 651	18 143
South 32 SA Coal Holdings (Pty) Limited	Construction	47 866	21 579
City of Cape Town	Construction	55 310	70 103
Swaziland Water and Agricultural Development Enterprise	Construction	81 516	23 043

41. Segmental analysis *(continued)*

	South Africa		Other regions		Consolidated	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Geographical information						
Total revenue from external customers	1 217 631	1 331 735	155 417	41 313	959 357	1 373 048
Property, plant and equipment	195 823	195 699	1 801	1 925	157 014	197 624

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

42. Interest in subsidiaries

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

			Percentage held	
			2018 %	2017 %
Directly held				
Brookmay Properties (Pty) Limited	South Africa	Dormant	100	100
Esor Africa (Pty) Limited	South Africa	Property investment	100	100
Esor Civils (Pty) Limited	South Africa	Dormant	100	100
Esor Construction (Pty) Limited	South Africa	Civil engineering	100	100
Esor Pipelines (Pty) Limited	South Africa	Dormant	100	100
Esor Property Developments (Pty) Limited	South Africa	Property development	100	100
Indirectly held				
EC Zimbabwe (Pvt) Limited	Zimbabwe	Civil engineering	49	49
Esor Broad Based Share Ownership Scheme	South Africa	Employee share scheme	100	100
Esor Construction Botswana (Pty) Limited	Botswana	Civil engineering	100	100
Esor Construction Swaziland (Pty) Limited	Swaziland	Civil engineering	100	100
Esor Mauritius International Limited	Mauritius	Dormant	100	100
Esor Plant (Pty) Limited	South Africa	Dormant	100	100
Esor Uitvlugt (Pty) Limited	South Africa	Property development	100	100
Layered Brick Construction (Pvt) Limited	Zimbabwe	Investment holding	49	49
Leanocol (Pty) Ltd	South Africa	Dormant	100	0
Minkispark (Pty) Ltd	South Africa	Property investment	100	0
Nike Enterprises (Pvt) Limited	Zimbabwe	Property investment	49	49
Safdev Land 1 (Pty) Limited	South Africa	Property development	100	100
Safdev Tanganani (Pty) Limited ¹	South Africa	Property development	50	50
Tuboseal Services (Pty) Limited	South Africa	Civil engineering	100	100

1. Following the disposal of 50% of the share capital in November 2014, the company is now equity accounted as a joint venture.

Notes to the consolidated and separate financial statements (continued)

for the year ended 28 February 2018

	COMPANY	
	2018 R'000	2017 R'000
42. Interest in subsidiaries (continued)		
The profit/(loss) after taxation attributable to the subsidiaries		
Brookmay Properties (Pty) Limited	–	–
Esor Africa (Pty) Limited	(70)	1 536
Esor Broad-Based Share Ownership Scheme	75	60
Esor Construction (Pty) Limited	(308 040)	(89 875)
Subsidiaries of Esor Construction (Pty) Limited	2 802	1 199
Esor Uitvlugt (Pty) Limited	(1 678)	538
Esor Civils (Pty) Limited	–	–
Esor Pipelines (Pty) Limited	–	–
Safdev Land 1 (Pty) Limited	(27)	8 216
Safdev Tanganani (Pty) Limited	–	(59)
Minkispark (Pty) Ltd	(1)	–
Esor Property Developments (Pty) Limited	–	(711)
	(306 939)	(79 096)
Aggregate profits	2 802	11 549
Aggregate losses	(309 741)	(90 645)
Loans to/(from) subsidiaries		
Esor Africa (Pty) Limited	–	–
Esor Construction (Pty) Limited	68 404	67 927
	68 404	67 927

43. Prescribed officers' remuneration

	Basic salary R'000	Bonus R'000	Directors' base fee R'000	Directors' attendance fee R'000	Total short- term benefits R'000	Post employ- ment benefits R'000	Total as per AFS R'000	Share- based payments	Total R'000
2018									
D Gibbons	2 270	–	–	–	2 270	349	2 619	–	2 619
W van der Vyver	1 946	–	–	–	1 946	217	2 163	–	2 163
From the company	4 216	–	–	–	4 216	566	4 782	–	4 782
Total emoluments	4 216	–	–	–	4 216	566	4 782	–	4 782
2017									
D Gibbons	2 201	141	–	–	2 342	–	2 342	–	2 342
W van der Vyver	1 878	117	–	–	1 995	210	2 205	–	2 205
From the company	4 079	258	–	–	4 337	210	4 547	–	4 547
Total emoluments	4 079	258	–	–	4 337	210	4 547	–	4 547

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
44. Onerous contract provision				
Balance at beginning of year	50 700	46 000	–	–
Provisions made during the year	29 700	50 700	–	–
Provisions used during the year	(50 700)	(46 000)	–	–
Balance at end of year	29 700	50 700	–	–

Quality issues were addressed at the Northern Aqueduct contract for eThekweni Municipality in KwaZulu-Natal, where certain of the costs in repairing the defective welds were being claimed from the insurance underwriter. This matter was resolved during April 2018. The contract was due for completion in September 2015 but will only be completed and tested in July 2018. The total estimated cost to complete amounts to an additional cost of R6,7 million for losses to be incurred post FY2018. After year-end the insurer agreed the quantum for the professional indemnity claim that relates to the costs in gaining access to and reinstating the pipeline.

Phase I of Western Aqueduct was subject to certain client delays and impacted by operational issues. Various legal and claim disputes are being addressed and remain in various stages of finalisation. For FY2018 these resulted in a loss of R119 million and will continue to impact cash flow and liquidity for a further two months until finalised. The total estimated cost to complete amounts to an additional cost of R23 million for losses to be incurred post FY2018.

45. Going concern and subsequent events

The directors are required to make an assessment of the ability of the group and the company to continue as going concerns and have disclosed their considerations below.

The group incurred a loss for the year of R306 million (2017: loss of R140 million) and the company recorded a loss for the year of R402 million (2017: loss of R96 million).

The matters described below have placed significant pressure on the overall liquidity of the group and company:

- Significant losses incurred on certain construction contracts by the group and company in the current and prior financial years;
- The current challenging economic environment within the construction sector, particularly in respect of the inability of the government and municipalities to execute and award contracts and the significant delays experienced in receiving payments due in respect of contract receivables relating to these entities;
- The inability of the group and company to obtain further short to medium-term funding.

In order to mitigate the negative effects of the above, the directors have implemented various strategies to ensure that the group and company are able to meet the group's and company's obligations as and when they fall due. These include:

- Expediting the completion of the legacy loss making contracts in order to minimise further losses and the consequential cash outflows.
- Disposal of idle and non-core assets following the strategic positioning of the group to focus on water, sanitation and developments. Proceeds to the value of R20,7 million have been received subsequent to year-end.
- Refinancing of selected vehicles and equipment through vendor financing which has resulted in an inflow of cash subsequent to year-end of R12,2 million. The terms of financing are over an 18-month period. This resulted in a reduction in the overdraft facility of R5 million subsequent to year-end.
- Renegotiating payment terms with major suppliers and sub-contractors to more closely match the renegotiated outflows with the timing of anticipated future cash inflows.
- Ensuring that adequate security is provided to the primary bankers to cover the facilities that are made available in terms of the facilities arrangements.
- Ongoing support of guarantee providers to maintain adequate bonding facilities to facilitate successful implementation of contract awards.
- Negotiations to dispose of the certain development land.

Notes to the consolidated and separate financial statements *(continued)*

for the year ended 28 February 2018

45. Going concern and subsequent events *(continued)*

- In an effort to realign the resources to workload, the group has started a section 189 process of anticipated retrenchment that will see the reduction in headcount to align with workload as well as reducing costs by around R4 million a month.
- Renegotiating payment terms of the shareholders' loan received from Geomer Investments (Pty) Ltd.

Management has prepared a 15-month cash flow forecast from the date of the audit report, which if successfully implemented, indicates that the group and company will have sufficient cash resources for the foreseeable future. These cash flows are, however, based on certain key assumptions that are potentially uncertain either in their timing or quantum or both which are detailed below:

- Significant claims and awards on contracts that management believe are contractually due;
- The finalisation of certain insurance claims with their insurers relating to equipment damaged/destroyed on certain contract sites;
- The continued ability of certain customers to settle their outstanding debts in accordance with the agreed payment terms;
- The successful profitable completion of contracts in progress and of newly awarded contracts;
- The timely payment of creditors/sub-contractors and loans for which extended term payment plans have been renegotiated and for those creditors whose terms have not been renegotiated.
- The disposal of idle and non-core plant and equipment.

Consequently, the ability of the group and company to settle their liabilities as and when they fall due is largely dependent on the successful realisation of these projected cash inflows. If the group and company do not realise the cash inflows in a timely manner and in the quantum estimated, then the cash flow resources available to the group and company will be materially impacted.

As a result of the events and conditions described above, there is material uncertainty on the timing and quantum of the cash inflows included in the cash flow forecast that may cast significant doubt on the group's and company's ability to continue as going concerns and, therefore, the group and company may be unable to realise their assets and discharge their liabilities in the normal course of business.

46. Reportable irregularity

Following the receipt of an external service provider's report on the liquidity position of the group our auditors made a determination that there appeared to be reasonable grounds that the company was financially distressed. Therefore there was reason to believe that a reportable irregularity, as defined in the Auditing Profession Act was taking place as a result of the board not complying with the following:

- In accordance with section 129(7) of the Companies Act 71 of 2008 if the board of a company has reasonable grounds to believe that the company is financially distressed, but the board has not adopted a resolution contemplated in section 129(1)(a) of the Companies Act 71 of 2008, the board must deliver a written notice to each affected person, setting out the criteria referred to in section 128(1)(e) of the Companies Act 71 of 2008 that are applicable to the company, and its reasons for not adopting a resolution contemplated in section 129(1)(a) of the Companies Act 71 of 2008.

46. Reportable irregularity *(continued)*

In response to the reported irregularity it was the board's view that Esor is not financially distressed and that Esor will not become financially distressed. This view was informed by amongst other actions, the following proactive steps which have been taken/or matters concluded to avoid such financial distress and ensure Esor's creditors remain satisfied:

- Formal contracts (repayment agreements) have been concluded with a number of Esor's major creditors. These contracts aim to enable Esor to pay the relevant creditors in accordance with an agreed plan assisting Esor and enabling it to meet its financial requirements relating to the underlying debts. The result of concluding such repayment agreements is a total deferment of R46 million of due and payable creditors and sub-contractors to future periods.
- A section 189 Labour Relations Act procedure for the retrenchment of about 33% of employees is under way. Provision has been made in the cash flow forecast for retrenchment costs of around R10 million.
- An agreement relating to a shareholder claim against Esor, in an approximate amount of R33 million, is in the process of being finalised with Esor's largest shareholder, Geomer. In terms of such agreement the repayment date for the full outstanding amount due at 30 June 2018 is to be amended to commence repayment from 31 August 2018 and thereafter repayment will be effected in monthly instalments of R2 million until the claim is fully settled.
- A number of plant assets have already been disposed of which resulted in an injection of about R16,6 million in the cash flow of Esor.
- A net insurance settlement claim of R42 million in favour of Esor, was received by Esor during April 2018.
- A refinancing facility agreement was concluded for purposes of raising approximately R13 million cash for an improved cash flow. The net cash proceeds were received in early May 2018.
- A cash flow and debt forecast (which excludes uncertain inflows relating to claims) for the period ending March 2019 illustrates an ultimate cash flow position within the available facilities for Esor for the applicable period and continuing thereafter.
- There are a number of movable, underutilised assets that can be rented out and/or disposed of to increase cash flow.

Consequently the board was of the view that the directors have taken sufficient steps to alleviate the immediate cash flow problems of Esor and have acted in terms of the requirements of the Companies Act.



Shareholder information

135	<i>Analysis of shareholders</i>
136	<i>Shareholders' diary</i>
137	<i>Notice of annual general meeting</i>
149	<i>Form of proxy</i>
150	<i>Notes to the form of proxy</i>
151	<i>Definitions</i>
IBC	<i>Contact details</i>

Analysis of shareholders

for the year ended 28 February 2018

Company: Esor Limited
Register date: 23 February 2018
Issued share capital: 493 981 787

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	369	19,27	172 838	0,03
1 001 – 10 000 shares	696	36,34	3 277 964	0,66
10 001 – 100 000 shares	588	30,70	23 539 078	4,77
100 001 – 1 000 000 shares	229	11,96	68 614 540	13,89
1 000 001 shares and over	33	1,72	398 377 367	80,65
Totals	1 915	100,00	493 981 787	100,00
Distribution of shareholders				
Banks/brokers	7	0,37	2 291 216	0,46
Close corporations	23	1,20	10 584 729	2,14
Empowerment	1	0,05	21 012 250	4,25
Endowment funds	6	0,31	48 720	0,01
Individuals	1 733	90,50	130 960 460	26,51
Mutual funds	4	0,21	16 137 733	3,27
Other corporations	19	0,99	1 830 700	0,37
Own holdings	1	0,05	9 231 762	1,87
Private companies	39	2,04	285 258 852	57,75
Public companies	1	0,05	40 000	0,01
Retirement funds	4	0,21	2 436 990	0,49
Trusts	77	4,02	14 148 375	2,86
Totals	1 915	100,00	493 981 787	100,00
Public/non-public shareholders				
Non-public shareholders	7	0,37	289 474 878	58,60
Directors and associates of the company holdings	5	0,26	11 893 478	2,41
Strategic holdings (more than 10%)	1	0,05	268 349 638	54,32
Own holdings	1	0,05	9 231 762	1,87
Public shareholders	1 908	99,63	204 506 909	41,40
Totals	1 915	100,00	493 981 787	100,00
Beneficial shareholders holding 3% or more				
Golding, MJA			268 349 638	54,32
Esor Broad Based Share Ownership Scheme			21 012 250	4,25
Investec			15 515 774	3,14
Totals			304 877 662	61,72
Institutional holding 3% or more				
Investec Asset Management			17 930 534	3,63
Totals			17 930 534	3,63

Shareholders' diary

Financial year-end	February
Preliminary annual results announcement	29 June 2018
Annual report posted	July 2018
Annual general meeting	31 August 2018
Interim results announcement	November 2018

Notice of annual general meeting

ESOR LIMITED

(Incorporated in the Republic of South Africa)

(Registration number: 1994/000732/06)

JSE code: ESR

ISIN: ZAE000184669

("Esor" or "the company")

Notice is hereby given that the annual general meeting of the shareholders of Esor will be held in the boardroom of the company at 30 Activia Road, Activia Park, Germiston on Friday, 31 August 2018 at 10:00 (SA time), to deal with the business as set out below and to consider and, if deemed appropriate, pass, with or without modification, the ordinary and special resolutions set out in this notice.

Kindly note that in terms of section 63(1) of the Companies Act, No. 71 of 2008, as amended ("Companies Act"), meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to participate in or vote at the annual general meeting. Forms of identification that will be accepted include original and valid identity documents, driver's licences and passports.

The board of directors of the company has determined the following dates applicable to the annual general meeting:

	2018
Record date for the receipt of notice of the annual general meeting in terms of section 59(1) of the Companies Act	Friday, 27 July
Last day to trade in order to be eligible to participate and vote at the annual general meeting	Friday, 17 August
Record date for determining which shareholders are entitled to participate and vote at the annual general meeting	Friday, 24 August
Last day to lodge forms of proxy for the annual general meeting by 10:00 on	Wednesday, 29 August or they may be handed to the Chairman of the meeting at any time prior to the commencement of voting on the resolutions tabled at the annual general meeting

For the purpose of approving the ordinary resolutions, other than ordinary resolution number 5, the support of more than 50% (fifty percent) of the voting rights exercised on the resolution by shareholders present in person, or represented by proxy, at the annual general meeting is required, unless otherwise indicated.

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

Special resolution number 1

General authority to the company to purchase its own shares

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

Notice of annual general meeting (continued)

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

- the repurchase of the ordinary shares is effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
- at any point in time the company may only appoint one agent to effect any repurchases on its behalf;
- this general authority shall only be valid until the next annual general meeting of the company, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of the general authority to repurchase shares;
- the maximum price at which the shares may be acquired will be 10% (ten percent) above the weighted average of the market value at which such ordinary shares traded on the JSE, for the 5 (five) business days immediately preceding the date on which the transaction is effected;
- any such acquisition shall not, in any one financial year, exceed 10% (ten percent) of the company's issued ordinary shares or 49 398 178 (forty-nine million three hundred and ninety-eight thousand one hundred and seventy-eight) shares as at the passing of the general authority;
- should derivatives be used, such authority is limited to paragraphs 5.72(c) and (d) and 5.84(a) of the JSE Listings Requirements;
- the company and/or its subsidiaries may not repurchase 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;
- the directors have passed a resolution authorising the repurchase, resolving that the company has satisfied the Solvency and Liquidity Test as defined in the Companies Act and resolving that since the Solvency and Liquidity Test had been applied, there have been no material changes to the financial position of the group;
- the company may not enter the market to proceed with the repurchase until Esor's sponsor, Vunani Corporate Finance, has confirmed the adequacy of Esor's working capital for the purposes of undertaking a repurchase of shares, in writing to the JSE;
- when the company has cumulatively repurchased 3% (three percent) of the initial number of the relevant class of securities, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter, an announcement must be made. Such announcement must be made as soon as possible and in any event by not later than 08:30 on the second business day following the day on which the relevant threshold is reached or exceeded; and
- this authority will only be utilised to the extent that the directors, after considering the maximum effect of such repurchase, for a period of at least 12 (twelve) months after the date of notice of the annual general meeting are of the opinion that:
 - the company and the Esor group will be able to repay its debts in the ordinary course of business;
 - the assets of the company and the Esor group fairly valued according to International Financial Reporting Standards and on a basis consistent with the last financial year of the company ended 28 February 2018, exceed its liabilities;
 - the company and the Esor group have adequate share capital and reserves for ordinary business purposes;
 - the company and the Esor group have sufficient working capital for ordinary business purposes."

Voting:

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

Additional disclosure requirements required in terms of the JSE Listings Requirements

Material changes

No material changes have occurred since the end of the last financial period, being 28 February 2018, and the date of this notice of annual general meeting.

Directors' responsibility statement

The directors of Esor as set out on pages 16 and 17 of the Integrated Report:

- have considered all the statements of fact and opinion in the Integrated Report to which this notice is attached;
- accept, individually and collectively, full responsibility for such statements; and
- declare that, to the best of their knowledge and belief, such statements are correct and no material facts have been omitted, the omission of which would make any such statements false or misleading and that they have made all reasonable enquiries to ascertain such facts and that this notice contains all information required by law and the JSE Listings Requirements.

Litigation statement

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

Other disclosure in terms of the JSE Listings Requirements

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

Requirements	Reference
Directors	Pages 16 and 17
Major shareholders	Page 135
Directors' interests in securities	Page 72
Share capital of the company	Pages 106, note 13

Special resolution number 2

Approval of non-executive directors' fees

"RESOLVED, as a special resolution:

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

	Actual meeting fee – 2017/18 R	Proposed meeting fee – 2018/19 R
Type of fee (per annum)		
Board members		
Chairman	54 000	56 160
Member	27 000	28 080
Audit and risk committee		
Chairman	41 900	43 576
Member	20 950	21 788
Remuneration and nominations committee		
Chairman	12 128	12 370
Member	7 400	7 696
Social and ethics committee		
Chairman	12 128	12 370
Member	7 400	7 696"

Notice of annual general meeting (continued)

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

Special resolution number 3

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

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

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

Presentation of annual financial statements and reports

The consolidated audited annual financial statements for the company and the group, including the external independent auditor's report, the audit committee report and the directors' report for the year ended 28 February 2018, have been distributed as required and will be presented to shareholders at the annual general meeting.

The consolidated audited annual financial statements, together with the abovementioned reports, are set out on pages 65 to 98 of the Integrated Report.

Report from social and ethics committee

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

Ordinary resolution number 1

Reappointment and appointment of directors

Dr O Franks retires by rotation and, being eligible, offers himself for re-election as director of the company and in addition, the appointment of Mr H Takolia as director by the board of directors, to be approved and confirmed by shareholders as provided for in the JSE Listings Requirements.

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

Ordinary resolution number 1.1

"RESOLVED that the reappointment of Dr O Franks as a non-executive director of the company be and is hereby approved."

Ordinary resolution number 1.2

"RESOLVED that the appointment of Mr H Takolia as an independent non-executive director of the company be and is hereby ratified."

Ordinary resolution number 2

Reappointment of auditors

"RESOLVED that the reappointment of KPMG Incorporated, Registered Auditors, upon the recommendation of the current audit and risk committee, as independent auditors of the company be and is hereby approved."

Ordinary resolution number 3

Appointment of audit and risk committee members for the year ending 28 February 2019

It is proposed that the non-executive directors as indicated below be appointed as members of the audit and risk committee.

Ordinary resolution number 3.1

"RESOLVED that the appointment of Mr H Takolia as a member and chairman of the audit and risk committee until the conclusion of the next annual general meeting of the company in 2019 be and is hereby approved."

Ordinary resolution number 3.2

"RESOLVED that the appointment of Mr B Krone as a member of the audit and risk committee until the conclusion of the next annual general meeting of the company in 2019 be and is hereby approved."

Ordinary resolution number 3.3

"RESOLVED that the appointment of Dr O Franks as a member of the audit and risk committee until the conclusion of the next annual general meeting of the company in 2019, subject to his re-election as a director pursuant to ordinary resolution number 1.1, be and is hereby approved."

Ordinary resolution number 4

Authority to issue shares

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

Ordinary resolution number 5

Authority to issue shares for cash

"RESOLVED that the board of directors of the company be and they are hereby authorised by way of a general authority, to issue all or any of the authorised but unissued shares in the capital of the company for cash, as and when they in their discretion deem fit, subject to the Companies Act, the Memorandum of Incorporation of the company, the JSE Listings Requirements, when applicable, and subject to the following limitations:

- the equity securities 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 securities or rights that are convertible into a class already in issue;
- any such issue will only be made to "public shareholders" as defined in the Listings Requirements of the JSE and not to related parties;
- this authority is valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date that this authority is given;
- in respect of securities which are the subject of the general issue of shares for cash may not exceed 10% (ten percent) of the number of listed equity securities as at the date of the notice of general/annual general meeting, provided that:
 - in the event of a sub-division or consolidation of issued equity securities during the period contemplated above, the existing authority must be adjusted accordingly to represent the same allocation ratio;
 - any such general issues are subject to exchange control regulations and approval at that point in time;

Notice of annual general meeting (continued)

- a paid press announcement giving full details, including the impact on the net asset value, net tangible asset value, earnings and headline earnings per share, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of shares in issue prior to the issue;
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the issuer and the party subscribing for the securities; and
- approval of the general issue for cash resolution achieving 75% majority of the votes cast in favour of such resolutions by all equity securities present or represented by proxy at the general meeting convened to approve such resolution."

In order for this ordinary resolution number 5 to be passed, the support of at least 75% (seventy-five percent) of the voting rights exercised on the resolution by all equity securities holders (as defined in the JSE Listings Requirements) present in person, or represented by proxy, at the annual general meeting is required.

Ordinary resolution number 6

Advisory endorsement of the remuneration policy

"RESOLVED to approve, as a non-binding advisory vote, the company's remuneration policy (excluding the remuneration of the non-executive directors for their services as directors and members of board committees), as set out in the remuneration report contained in the Integrated Report on pages 54 to 62."

Ordinary resolution number 7

Authority to implement the special and ordinary resolutions

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

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

Voting and proxies

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

Proxies

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

A form of proxy is attached for the convenience of certificated shareholders and "own name" dematerialised shareholders of the company who are unable to attend the annual general meeting, but who wish to be represented thereat. In order to be valid, duly completed forms of proxy must be received by the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Ground Floor, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), not later than 10:00 on Wednesday, 27 August 2018.

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

- (1) At any time, a shareholder of a company may appoint any individual, including an individual who is not a shareholder of that company, as a proxy to:
 - (a) participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder; or
 - (b) give or withhold written consent on behalf of the shareholder to a decision contemplated in section 60.
- (2) A proxy appointment:
 - (a) must be in writing, dated and signed by the shareholder; and
 - (b) remains valid for:
 - (i) one year after the date on which it was signed; or
 - (ii) any longer or shorter period expressly set out in the appointment, unless it is revoked in a manner contemplated in sub-section (4)(c), or expires earlier as contemplated in sub-section (8)(d).
- (3) Except to the extent that the Memorandum of Incorporation of a company provides otherwise:
 - (a) a shareholder of that company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder;
 - (b) a proxy may delegate the proxy's authority to act on behalf of the shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
 - (c) a copy of the instrument appointing a proxy must be delivered to the company, or to any other person on behalf of the company, before the proxy exercises any rights of the shareholder at a shareholders meeting.
- (4) Irrespective of the form of instrument used to appoint a proxy:
 - (a) the appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
 - (b) the appointment is revocable unless the proxy appointment expressly states otherwise; and
 - (c) if the appointment is revocable, a shareholder may revoke the proxy appointment by:
 - (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and
 - (ii) delivering a copy of the revocation instrument to the proxy, and to the company.
- (5) The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of:
 - (a) the date stated in the revocation instrument, if any; or
 - (b) the date on which the revocation instrument was delivered as required in sub-section (4)(c)(ii).
- (6) A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction, except to the extent that the instrument appointing the proxy otherwise provides.

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

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

Notice of annual general meeting (continued)

Electronic participation

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

By order of the board



iThemba Governance and Statutory Solutions (Pty) Ltd

Company secretary

Johannesburg

29 June 2018

Esor Limited

Registration number: 1994/000732/06

JSE code: ESR

ISIN: ZAE0001184669

Registered office

30 Activia Road

Activia Park

Germiston

1429

Transfer secretaries

Computershare Investor Services (Pty) Limited
(Registration number 2004/003647/07)

Rosebank Towers

15 Biermann Avenue

Rosebank

2196

PO Box 61051

Marshalltown

2107

Sponsor

Vunani Corporate Finance

Vunani House

Vunani Office Park

151 Katherine Street

Sandton

2196

PO Box 652419

Benmore

2010

Annual general meeting – explanatory notes

Special resolution number 1 – General authority to repurchase shares

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

Special resolution 2 – Directors' remuneration

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

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

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

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

Notifications

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

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

Presentation of annual financial statements

At the annual general meeting, the directors must present the annual financial statements for the year ended 28 February 2018 to shareholders, together with the reports of the directors, the audit committee and the auditors. These are contained within the Integrated Report.

Presentation of report from the social, ethics and transformation committee

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

Notice of annual general meeting (continued)

Ordinary resolution numbers 1.1 to 1.2 – Rotation and appointment 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 re-election. In addition, any person appointed to the board of directors following the previous annual general meeting is required to retire and is eligible for election at the next annual general meeting.

Brief biographical details of the directors standing for re-election and appointment are set out on page 67 of the Integrated Report of which this notice forms part.

Ordinary resolution number 2 – Reappointment of auditors

KPMG Incorporated ("KPMG") has indicated its willingness to continue in office and ordinary resolution 2 proposes the reappointment of that firm as the company's auditors with effect from 1 March 2018. Section 90(3) of the Companies Act requires the designated auditor to meet the criteria as set out in section 90(2) of the Companies Act. The board of directors of the company is satisfied that both KPMG and the designated auditor meet all relevant requirements and, on recommendation of the audit committee, it is proposed that KPMG be reappointed.

Ordinary resolution numbers 3.1 to 3.3 – Appointment of audit and risk committee

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

The board of directors of the company is satisfied that the members of the audit and risk committee meet all relevant statutory requirements.

Ordinary resolutions 4 and 5 – Placement and issue of shares for cash

In terms of the Companies 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 Companies 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.

Ordinary resolution number 6 – Remuneration philosophy and policy

The King Report on Corporate Governance for South Africa, 2016 ("King IV") 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.

Ordinary resolution number 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 ordinary and special resolutions set out in the notice and approved at the annual general meeting. It is proposed that the company secretary and/or any director be authorised accordingly.

Summary of the rights established in terms of section 58 of the Companies 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 Companies 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 Companies Act or expires earlier as contemplated in section 58(8)(d) of the Companies 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 Companies 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;

Notice of annual general meeting (continued)

- 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 Companies 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 Companies Act.

Form of proxy



Esor Limited

Incorporated in the Republic of South Africa
Registration number 1994/000732/06
JSE code: ESR ISIN: ZAE000184669
("Esor" or "the company")

Form of proxy for the annual general meeting of the company to be held on 31 August 2018 at the company's offices at 30 Activia Road, Activia Park, Germiston ("the annual general meeting"). Only for use by certificated shareholders, nominee companies of Central Securities Depository Participants ("CSDP"), brokers' nominee companies and shareholders who have dematerialised their shares and who have elected own-name registration and who wish to vote on the special and ordinary resolutions per the notice of the annual general meeting to which this form is attached.

Shareholders who have dematerialised their shares through a CSDP or broker must not complete this form of proxy and must provide their CSDP or broker with their voting instructions, except for shareholders who elected own-name registration in the sub-register through a CSDP, which shareholders must complete this form of proxy and lodge it with Computershare Investor Services (Proprietary) Limited.

Holders of dematerialised shares, other than with own-name registration, who wish to attend the annual general meeting, must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the necessary letter of representation.

I/We _____ (name in block letters)

(address) _____

Telephone: Land line: _____ Mobile: _____

being the holders of _____ ordinary shares in the company, do hereby appoint:

1. _____ or failing him/her

2. _____ or failing him/her

3. the chairman 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 hereof, 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
Special resolution 1: Authority for the company to repurchase its own shares			
Special resolution 2: Authorisation for the company to pay directors' remuneration			
Special resolution 3: Authority to provide financial assistance to related and inter-related companies			
Ordinary resolution 1.1: Re-election of Dr O Franks as a non-executive director			
Ordinary resolution 1.2: Appointment of Mr H Takolia as an independent non-executive director			
Ordinary resolution 2: Reappointment of KPMG Inc as external auditor			
Ordinary resolution 3.1: Appointment of Mr H Takolia as a member and chairman of the audit and risk committee			
Ordinary resolution 3.2: Reelection of Mr B Krone as a member of the audit and risk committee			
Ordinary resolution 3.3: Appointment of Dr O Franks as a member of the audit and risk committee			
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			
Ordinary resolution 7: Authority to effect the resolutions			

Signature _____ signed at _____ on _____ 2018

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 chairman 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 chairman 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 chairman, to vote or abstain from voting as deemed fit and in the case of the chairman 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 shareholder, 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, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) to be received no later than 48 hours prior to the meeting or they may be handed to the chairman of the meeting at any time prior to the commencement of voting on the resolutions tabled at the annual general meeting.
6. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so. Where there are joint holders of shares, the vote of the first joint holder who tenders a vote, as determined by the order in which the names stand in the register of members, will be accepted.
7. The chairman 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 chairman 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 chairman of the annual general meeting.

Definitions

"BCAWU"	Building Construction and Allied Workers Union, of which 14,8% of Esor's workforce are members
"the board"	The board of directors of Esor Limited, as set out on pages 16 and 17
"CEO"	Chief Executive Officer. Esor's CEO is Wessel van Zyl
"CFO"	Chief Financial Officer. Esor's CFO is Bruce Atkinson
"CIDB"	Construction Industry Development Board, which sets member company gradings that dictate project eligibility. Esor Construction has a highest possible "9CE" and "9GB" gradings
"CIO"	Chief Information Officer. Esor's CIO is Gary Brown
"the company" or "Esor"	Esor Limited, listed on the JSE Limited in the "Construction and Building Materials" sector
"DTI"	Department of Trade and Industry
"EMP"	Environmental Management Plan
"Exco"	Executive committee of Esor Limited
"Geomer" or "Geomer Investments"	Geomer Investments, a 52,89% shareholder in Esor
"GRI"	Global Reporting Initiative, a best practice benchmark in reporting
"the group"	Esor and its subsidiaries and associates
"IT"	Information technology
"JSE"	JSE Limited incorporating the JSE Securities Exchange, the main bourse in South Africa
"King III Report"	King Report on Corporate Governance for South Africa 2009
"LDC"	Limited duration contractor
"LTIFR"	Lost Time Injury Frequency Rate
"NUM"	National Union of Mineworkers, of which 15,0% of Esor's workforce are members
"the previous year"	The year ended 28 February 2017
"SABS"	South African Bureau of Standards
"SAEWA"	South African Equity Workers Association, of which 0,1% of Esor's workforce are members
"SAFCEC"	South African Federation of Civil Engineering Contractors
"SAICE"	South African Institution of Civil Engineers
"SENS"	Securities Exchange News Service, the regulatory information dissemination platform for the JSE
"SHEQ"	Safety, Health, Environment and Quality

Definitions (continued)

“VFL” Visible Felt Leadership

“the year” or
“the year under
review” The year ended 28 February 2018

Financial definitions

“EBITDA” Earnings before interest, taxation, depreciation and amortisation

“EVA” Economic Value Added

“FY” Financial year, for Esor ending 28/9 February

“H1” Period from 1 March to 31 August

“H2” Period from 1 September to 28/9 February

“HEPS” Headline earnings per share

“IFRS” International Financial Reporting Standards

“PAT” Profit after tax

“PBT” Profit before tax

“ROI” Return on investment

“DWT” Dividends withholding tax

Technical terms

“gap housing” The gap housing market in South Africa comprises people who typically earn between R3 500 and R15 000 per month, which is too little to enable them to participate in the private property market yet too much to qualify for state assistance

“affordable
housing” The affordable housing market in South Africa comprises households which typically earn between R3 500 and R25 000 per month, qualifying them for bank, not state assistance

Contact details

Esor Limited

Registration number: 1994/000732/06

JSE code: ESR

ISIN: ZAE000184669

Registered office

30 Activia Road

Activia Park

Germiston

1429

PO Box 6478, Dunswart, 1508

Telephone: 011 776 8700

Facsimile: 011 822 1158

Company secretary

iThemba Governance and Statutory Solutions (Pty) Limited
Suite 5-201

2nd floor, Block 5

Monument Office Park

71-79 Steenbok Avenue

Monument Park

0181

PO Box 25160, Monument Park, 0105

Telephone: 086 111 1010

Facsimile: 086 604 1315

Transfer secretaries

Computershare Investor Services (Pty) Limited
(Registration number 2004/003647/07)

Rosebank Towers

15 Biermann Avenue

Rosebank

2196

PO Box 61051, Marshalltown, 2107

Telephone: 011 370 5000

Facsimile: 011 688 5210

Auditors

SG Robinson

KPMG Inc.

KPMG Crescent

85 Empire Road

Parktown

2193

Private Bag X9, Parkview, 2122

Telephone: 011 647 7111

Facsimile: 011 647 8000

Sponsor

Vunani Corporate Finance

Vunani House

Vunani Office Park

151 Katherine Street

Sandton

2196

PO Box 652419, Benmore, 2010

Telephone: 011 263 9500

Facsimile: 011 784 1989

Commercial banker

ABSA Bank Limited

Podium Floor

Norton Rose Building

15 Alice Lane

Sandton

2196

PO Box 7735, Johannesburg, 2000

Telephone: 011 226 8184

Enquiries relating to the annual report and investor relations

Singular Systems

28 Fort Street

Birnam

2196

PO Box 785261, Sandton, 2146

Telephone: 010 003 0661

Facsimile: 011 885 3835

Email: ir@singular.co.za



www.esor.co.za