



Group Five Limited

Proposed amendments to the
existing BEE transaction

31 October 2012

MAKE THINGS HAPPEN



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Introduction and background

Group Five is fully committed to the advancement of broad-based black economic empowerment within the construction industry

- Group Five is fully committed to its broad-based black economic empowerment goals and targets. Several factors, such as the unwinding of the iLima transaction and the conclusion of both the broad-based employee scheme and black management scheme, necessitated Group Five to review its black economic empowerment (“BEE”) ownership status
- Group Five believes its employees, particularly its professional staff are key to its success and future growth. In recognition of this it is believed that the introduction of the Black Professionals Staff Trust will entrench a sense of ownership amongst the Black Professionals Staff Trust beneficiaries as well as assist in the incentivisation and retention of these employees
- Further, key to the sustainability and growth of Group Five, is the education and training of suitably qualified staff. The Izakhiwo Imfundo Trust will complement Group Five’s existing endeavours in this regard by providing funding for the education of the Izakhiwo Imfundo Trust beneficiaries
- Mvelaphanda Group Limited (“Mvelaphanda”) has committed to a process of realising value of its assets for its shareholders, including its interest in Group Five. This presented an opportunity to Group Five to engage in discussions with Mvelaphanda
- In this regard, Group Five and Mvelaphanda have reached an agreement in terms of which, and subject to shareholder approval, Mvelaphanda, through its wholly-owned subsidiary Lexshell 650 Investments (“Lexshell”), shall dispose of its interest in Group Five for R30 million to the Black Professionals Black Professionals Staff Trust, which will subsequently sell a portion of the shares to the Izakhiwo Imfundo Trust (“amended BEE transaction”)

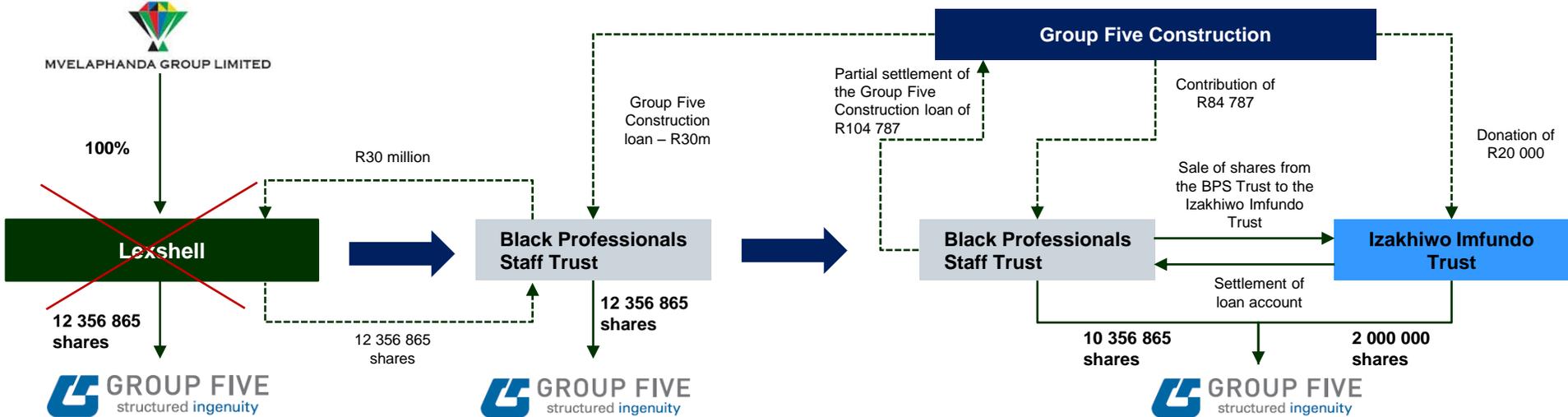
Envisaged amendments and rationale

The salient features of the existing Mvelaphanda BEE transaction are as follows:-

- *the transaction is notionally funded;*
- *the notional funding rate is 12% per annum;*
- *the transaction matures on the 1 November 2015; and*
- *the dividends received by Lexshell are used to acquire additional Group Five shares*

- In order to facilitate the amended BEE transaction it is proposed that the following additional changes to the existing Mvelaphanda transaction be implemented to improve the prospect of value accretion to the Black Professionals Staff Trust and Izakhiwo Imfundo Trust :
 - dividends to be paid in cash (not used to acquire Group Five shares);
 - expiry date of the transaction be extended to November 2020, with the ability to wind up the transaction earlier should all BEE legislation cease to be of force and effect; and
 - notional funding rate be decreased from 12% to 9%
- The amended BEE transaction will result in:
 - the introduction of key broad-based participants in the form of the Black Professionals Black Professionals Staff Trust and the Izakhiwo Imfundo Trust;
 - an overall enhancement to the company's BEE ownership credentials; and
 - an extension to the period during which these benefits will accrue to Group Five with minimal dilution to existing shareholders

Mechanics of the proposed transaction



Subject to the requisite approvals being obtained, it is envisaged that the amended BEE transaction will be implemented through the following steps:

1. The Black Professionals Staff Trust is formed pursuant to a nominal donation by Group Five
2. Group Five Construction Proprietary Limited (“Group Five Construction”) provides a loan to the Black Professionals Staff Trust of R30 million to fund the acquisition of the Group Five shares held by Lexshell. The loan will accrue interest at a rate of 9% naca and will be repayable, including accrued interest, following the conclusion of the notional funding
3. The Izakhiwo Imfundo Trust is formed pursuant to a nominal donation by Group Five
4. The Izakhiwo Imfundo Trust acquires 2 000 000 Group Five shares from the Black Professionals Staff Trust on loan account
5. Once the Izakhiwo Imfundo Trust is registered as Public Benefit Organisation, Group Five Construction will make a contribution of R84 787 to the Black Professionals Staff Trust and a donation of R20 000 to the Izakhiwo Imfundo Trust
6. The Izakhiwo Imfundo Trust will use the proceeds from the donation to settle the loan account with the Black Professionals Staff Trust
7. The Black Professionals Staff Trust will then utilise the proceeds received from the Izakhiwo Imfundo Trust and the contribution it received from Group Five Construction to partially settle the loan from Group Five Construction

The Black Professionals Staff Trust

9.35% of Group Five's shares in issue will be allocated to the Black Professionals Staff Trust

Participation

- The Black Professionals Staff Trust will benefit black staff that have obtained a performance score of 3 or more in terms of Group Five's performance rating system and fall within salary bands 6 to 10 at the time of a distribution by the Black Professionals Staff Trust
- The allocations will be formula driven and takes into account the salary band of the participant and his or her salary, participants in salary band 6 will receive approximately 3.4% of annual remuneration with participants in salary band 10 receiving approximately 0.9%. Staff in higher bands will receive a proportionally higher percentage of annual remuneration in comparison to those in lower bands. The allocations are based on a 40c per share full year dividend
- Assuming all black staff within the designated bands meet the performance criteria, the Black Professionals Staff Trust will initially benefit approximately 584 individuals

Salary band level	Average Salary per employee	Total Employees	Dividend per employee
Grade 6	1,026,676	16	34,891
<i>Percentage of annual remuneration</i>			<i>3.4%</i>
Grade 7	736,586	51	18,609
<i>Percentage of annual remuneration</i>			<i>2.5%</i>
Grade 8	537,519	87	9,304
<i>Percentage of annual remuneration</i>			<i>1.7%</i>
Grade 9	443,636	165	6,397
<i>Percentage of annual remuneration</i>			<i>1.4%</i>
Grade 10	315,092	265	2,908
<i>Percentage of annual remuneration</i>			<i>0.9%</i>

Salient features of the Black Professionals Staff Trust

- There will be a minimum of two trustees at all times of which 50% will be appointed by the beneficiaries
- Before exercising any votes attaching to the Black Professionals Staff Trust shares in favour or against any resolution proposed to be passed at a meeting of shareholders of Group Five, the trustees shall convene a meeting of the beneficiaries, at the time, for the purposes of determining whether or not to vote in favour of the applicable proposed resolutions. For the purposes of this meeting, each beneficiary will have one vote
- Upon termination of the Black Professionals Staff Trust, the trustees will wind-up the affairs of the Black Professionals Staff Trust, will discharge the liabilities of the Black Professionals Staff Trust, and will distribute the remaining assets to the beneficiaries in accordance with the abovementioned formula

1.81% of Group Five's shares in issue will be allocated to the Izakhiwo Imfundo Trust

Objective

- The principal object of the Izakhiwo Imfundo Trust is to provide scholarships, bursaries and awards in a field of study which is aligned to the requirements of the construction industry

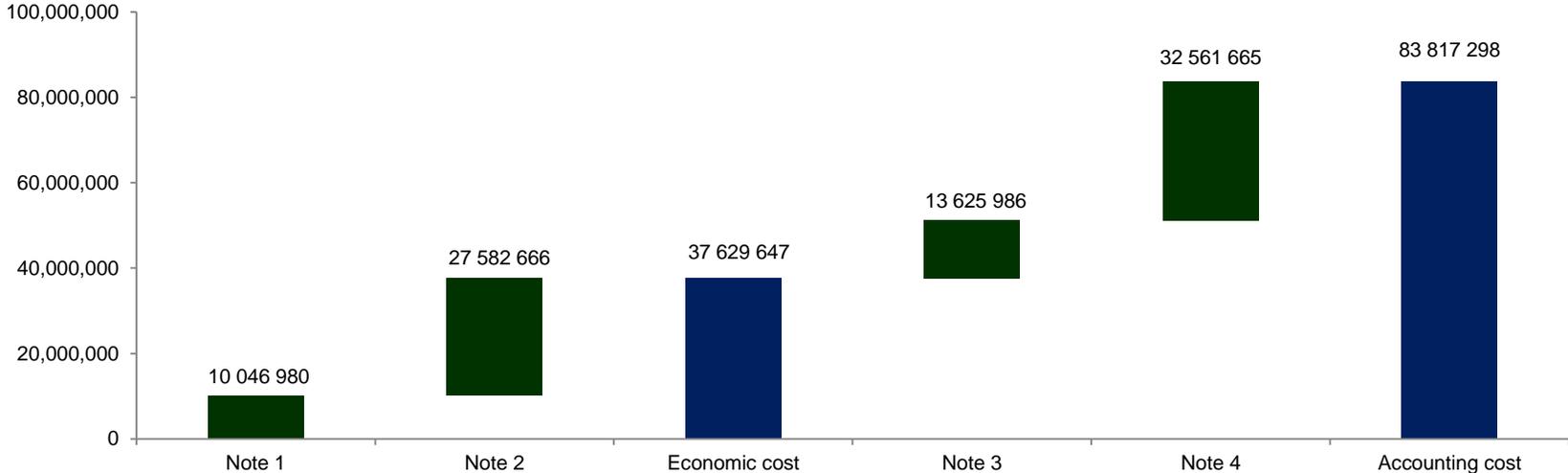
Participation

- The beneficiaries shall be selected by the trustees acting on the recommendation of a selection committee and with reference to the following selection criteria:-
 - the beneficiary must be a black person;
 - intend to pursue further education at a university or other educational institution, approved by the trustees, in a field of studies in-line with the current and future business and skills needs of the construction industry;
 - must have a proven academic merit; and
 - meet all the of the selection criteria stipulated by the relevant university or institution
- The trustees will endeavour to ensure the benefits are spread equitably amongst black men and black women

Salient features of the Izakhiwo Imfundo Trust

- There will be a minimum of three trustees at all times, whom will all be appointed by Group Five
- The majority of trustees will be black people and at least 25% of the trustees will be black women
- The majority of the trustees will be independent of Group Five
- The trustees shall be entitled to remuneration for their services, provided that the total administrative costs of the Izakhiwo Imfundo Trust together with any remuneration paid to the trustees in any financial year shall not exceed 15% of the income of the Izakhiwo Imfundo Trust in that financial year
- All voting rights attached to the Izakhiwo Imfundo Trust shares shall be held by the trustees
- On the winding upon termination of the scheme, all accumulated economic interest must be transferred to an entity with similar objectives

Reconciliation between the economic and accounting cost of the amended BEE transaction



Note 1	Extension of the term of the transaction to 1 November 2020 and decreasing the notional funding rate to 9% naca
Note 2	The economic cost of distributing dividends in cash rather than <i>in specie</i>
Note 3	Additional accounting cost of distributing dividends in cash
Note 4	The accounting requirement to value the option on the spot price rather than the 30 day VWAP

Reconciliation between the economic and accounting cost of the amended BEE transaction (cont.)

Note 1: Amendments to the term and funding rate

- The option valuation of the Mvelaphanda transaction was based on the following assumptions:

Valuation date	28 September 2012
Maturity date	1 November 2015
Number of shares	12 356 865
Notional funding rate	12% naca
Share price (30 day VWAP)	R26.91 per share
Volatility (30 day VWAP)	8.41%
Dividend yield	0%
Risk free rate	6.58%

Valuation = R 2 842 425

- The term of the amended BEE transaction is extended to 1 November 2020 and the notional funding rate is reduced to 9% naca. The valuation of this option was based on the following assumptions:

Valuation date	28 September 2012
Maturity date	1 November 2020
Number of shares	12 356 865
Notional funding rate	9% naca
Share price (30 day VWAP)	R26.91 per share
Volatility (30 day VWAP)	8.41%
Dividend yield	0%
Risk free rate	6.58%

Valuation = R 12 889 405

**Economic impact = R 12 889 405 – 2 842 425
= R 10 046 980**

Reconciliation between the economic and accounting cost of the amended BEE transaction (cont.)

Note 2: Distribution of dividends in cash rather than *in specie*

- In order to calculate the economic impact of the change in distribution of dividends from an *in specie* distribution to a cash distribution the following calculations and assumptions were made:
- Assuming an effective dividend yield of 2.35%, and utilising the Group Five share price as at 28 September 2012, the number of shares likely to be distributed over the term of the transaction were calculated. Such number of shares were included in the option valuation as set out below:

Valuation date	28 September 2012
Maturity date	1 November 2020
Number of shares	12 356 865 + 2 351 790 = 14 708 655 shares
Notional funding rate	9% naca
Share price (30 day VWAP)	R26.91 per share
Volatility (30 day VWAP)	8.41%
Dividend yield	0%
Risk free rate	6.58%

Valuation = R 23 672 966

- If the dividends are distributed in cash, the valuation would be split into two elements:
 - the option valuation, based on the assumptions set out below, including a dividend yield of 2.15% nacc; and
 - the calculation of the present value of the future dividend stream over the term of the transaction based on an assumed dividend yield of 2.15% nacc

Valuation date	28 September 2012
Maturity date	1 November 2020
Number of shares	12 356 865
Notional funding rate	9% naca
Share price (30 day VWAP)	R26.91 per share
Volatility (30 day VWAP)	8.41%
Dividend yield	2.15% nacc
Risk free rate	6.58%

Valuation = Option valuation (R 1 098 966) + the present value of the future dividend stream (R 50 156 905) = R 51 255 633

**Economic impact = R 51 255 633 – 23 672 966
= R 27 582 666**

- It is considered that the difference between the above valuations would result in the economic cost of the dividend stream no longer forming part of the notional funding structure

Reconciliation between the economic and accounting cost of the amended BEE transaction (cont.)

Note 3: The full accounting cost of distributing dividends in cash

- The differential between the R 51 255 633 and the R 37 629 647, which were calculated in notes 1 and 2 is considered an additional accounting impact
- This equates to the adjustment of R 13 625 986

Note 4: The accounting requirement to value the option on the spot price rather than the 30 day VWAP

- According to International Accounting Standard 39, option valuations are calculated based on spot prices and spot volatility. The underlying option in terms of the notional funding structure is governed by the relevant transaction agreements which contemplate the use of 30 day VWAP share prices and accordingly implies the use of 30 day VWAP price volatility
- The impact of complying with the requirements of International Accounting Standards 39 is therefore considered an accounting impact
- In this regard, the option valuation would be calculated as follows:

Valuation date	28 September 2012
Maturity date	1 November 2020
Number of shares	12 356 865
Notional funding rate	9% naca
Share price (30 day VWAP)	R26.91 per share
Volatility (30 day VWAP)	25.11%
Dividend yield	2.15%
Risk free rate	6.58%

Transaction cost = Option valuation (R 33 660 393) + the present value of the future dividend streams (R 50 156 90) = R 83 817 298

**Additional accounting cost = R 83 817 298 – R 51 255 633
= R 32 561 665**

Salient dates

Date	Detail
29 October 2012	Posting of the amended BEE transaction circular
31 October 2012 to 5 November 2012	Group Five institutional shareholder road show
27 November 2012	Shareholder meeting
28 November 2012	Execution of Black Professionals Staff Trust deed and Izakhiwo Imfundo Trust deed
5 business days after the Master issues Letters of Authority to the trustees of the Izakhiwo Imfundo Trust	Submission of all documents required to apply for tax exemption status in terms of section 30 of the Income Tax Act with the South African Revenue Service
10 business day after all of the conditions precedent have been fulfilled	Implementation of the sale by Lexshell to the Black Professionals Staff Trust

Conclusion

Group Five and its advisors are cognisant of the proposed amendments to the B-BEE Codes of Good Practice, which are currently open to public comment

The proposed amendments were considered in formulating the amended BEE transaction

Group Five continues to monitor developments, particularly as it impacts Group Five's compliance in this regard

- Sufficient BEE ownership is critical in Group Five's ability to secure tenders, particularly in the public sector. Failure to maintain such ownership will put Group Five at a competitive disadvantage in relation to its competitors
- The amended BEE transaction is ideally timed given the strategic intentions of Mvelaphanda and provides a number of benefits to Group Five shareholders, namely:
 - attractive pricing in respect of Mvelaphanda's exit;
 - the introduction of more broad-based participants in the form of the Black Professionals Staff Trust and the Izakhiwo Imfundo Trust, which is advantageous from a BEE scoring perspective;
 - increased certainty and longevity of BEE ownership;
 - reasonable economic costs given the associated benefits with minimal dilution to existing shareholders; and
 - the retention and attraction of key black professional staff and the education and training of scarce industry skills
- The board of Group Five recommends that shareholders vote in favour of the requisite resolutions to approve the amended BEE transaction