

# MIKE UPTON

## GROUP STRATEGY AND MARKET CONDITIONS

### Diversification by sector and by geography

**Sector expansion – 7 Sectors all active, industry and real estate very quiet.**

**Africa- steady progress -**

- Africa mineral resources now in recovery – Group capturing new growth rapidly
- Infrastructure backlog – Group cautious on public sector outside SA – selective.
- Funding is key to unlocking opportunity – leverage African investment theme. (Zim roads)

**Eastern Europe – good concessions base with targeted projects**

**MENA- holding costs during close out of legacy contracts and bid costs to rebuild.**

- Potential in Saudi, Qatar strongest with live bids under adjudication.

**Australia- comprehensive strategic evaluation undertaken.**

- Evaluated several entry options and acquisitions, but expensive, low margin businesses and prefer to focus on internal fitness and Africa at this time.

### Develop, invest in, and operate concessions and property assets

**Global market for PPP / concessions is active**

- Strong in Americas
- Eastern Europe – political changes have slowed some markets
- Africa strong emerging interest in PPP's and concessions.
- SA political crossroads on private sector investment into infrastructure - Govt retraction from stated policy has impacted the group in costs and order book.
- Presidential Infrastructure coordinating commission (PICC) and MoF /MoT working group to clarify infrastructure priorities and political direction on private sector inclusion in infrastructure delivery – output March/April suggested.
- Move skill set and focus to more reliable markets Africa / Australia/ East Europe
- Evaluate private sector concessions – mining, power, water, steam etc

### Optimise contribution of Manufacturing and Construction Materials

**Boom to bust cycle revealed our naivety in entering the aggregates, RMX market**

- Fixed quarry and RMX business has high risk to locality activity levels.
- Gauteng market has fallen continuously from 2009 – further 15% since June 2011
- We cannot add value, only react to demand, not create it.
- Very high capex and HSE, Environmental, compliance demands

**Reversal of performance since acquisition has impacted group performance**

- Cash and margin erosion
- Loss of shareholder value

**We have expended massive management time and resources in restructuring.**

**Business is lean but market demand continues to disappoint.**

**Logical next steps in progress**

## Secure and execute large multi-disciplinary projects

### **Growing Market demand for EPC and O+M solutions in key sectors**

**New E+C business** - just completed its first year and focused on group packaged offering of technically rich solutions to

**Delays incurred on all targeted projects affecting F2011** – mostly funding or Govt regulatory delays

- **Power** - Captive, industrial, Renewable
  - R4 billion bid into REFIT round 1 (November 2011)
  - R10 Billion expected to be bid into REFIT 2 (march 2012)
- **Nuclear programme** – F2013 start which requires investment in F2012 in a readiness programme and bid support.
  - Two nuclear bids under adjudication
- **Oil + gas** – G5 now largest refinery services contractor in Southern Africa

## Improved ROE

**Forecast ROI is poor for F2012 + F2013**

- Materials acquisitions have underperformed in a historically deep down-cycle
- Margins are squeezed in construction and manufacturing

### **Actions**

- Shedding underperforming, non-core assets – H1 and H2
- Internal fitness – Further cost and efficiency intervention across the group – F2012 cost, F2013 benefit
- Co-location strategy (under evaluation) – F2013/4 benefit
- Structural change in SA business, to release resources for growth in Africa and Europe – Australia potential for the right deal.

# CRISTINA TEIXEIRA FINANCIAL INDICATORS

## Financial Performance

### F2012 Trading performance

- F2012 performance will be weaker than originally anticipated
- Margins still under pressure affected by loss making businesses eg Construction Materials; deferred start-up of targeted contracts, investment costs on initiatives not expected to generate return in F2012
- Margins unlikely to improve until F2013 off a low F2012

### Secured Construction Order Books at October 2011

Rm	Actual revenue			Order book	
	F2009	F2010	F2011	1-year rolling from 1.11.11	Total book
Building and Housing	2 900	3 186	<b>2 143</b>	2 388	3 329
Civil Engineering	4 633	4 713	<b>3 548</b>	2 335	3 536
Engineering	2 443	1 488	<b>1 659</b>	1 418	2 193
<b>Total</b>	<b>9 976</b>	<b>9 387</b>	<b>7 350</b>	<b>6 141</b>	<b>9 058</b>

#### Building and Housing Secured Construction Order Book - R3 329m October 2011

77% SA		23% over-border	
45% Public	32% Private	1% Public	22% Private

#### Civil Engineering Secured Construction Order Book - R3 536m October 2011

53% SA		47% over-border	
45% Public	8% Private	35% Public	12% Private

#### Engineering Secured Construction Order Book – R2 193m October 2011

68% SA		32% over-border	
45% Public	21% Private	-% Public	34% Private

# CRISTINA TEIXEIRA

## FINANCIAL INDICATORS

### Financial Position

#### **Current Financial Position**

- Balance Sheet largely unchanged
- Net debt ungeared position maintained
- Local expansion and maintenance capital expenditure monitored and contained including construction materials
- Additional capital expenditure incurred on
  - African expansion
  - Contract specific requirements eg Zimbabwe contract
- Local DMTN bond roll over considered

### Cash flow and Liquidity

- Cash position largely in line with forecast
- Pressure on cash on hand include
  - Deferred start-up of targeted contracts revised cash forecast balances down
  - Funding of loss making businesses eg Construction Materials
  - Funding of investment in start-up initiatives business for which little recovery is expected in F2012
  - Funding of holding costs in Middle East
- Positively however is the further receipt of advance payments and excess billings achieved ahead of forecast
- Advance payment on Zimbabwe contract received enabling commencement of full works on contract
- Middle East quarterly payments received according to payment schedule

**ANDREW McJANNET**

## **Civil Engineering**

### **Market Conditions**

F2012 to date, despite being full of promise, has been somewhat slow to deliver. We have recently been awarded projects across the power, industrial, transport and mining sectors, allowing us to more or less maintain the level of our forward order book. Despite a significant increase in the number of bidding opportunities, the number of awards has remained low, with many projects being delayed, both in the public and private sectors. We have received numerous requests to extend bid validities and the reasons vary from political to financial to technical.

In addition, time frames on secured work have been extended with the result that Civil Engineering has currently secured approximately 80% of the work required in Africa for the current financial year, and a lower percentage in MENA.

The bidding environment is very competitive, with a high number of bidders and relatively low margins, as firms struggle to secure enough work to keep their resources busy. Further, due to the uncertain timing of awards, coupled with the lack of assurance that the award will indeed take place, there is a need to bid for more work than can actually be executed.

### **Prospects**

We have bid, and are bidding, numerous mining projects in Africa, as the demand for resources continues to support mining expansion. It is possible that several of these awards will reflect in our interim results order book. We are lowest and 2<sup>nd</sup> lowest bidder on a number of projects and therefore have reason to expect to be awarded some of this work.

In the MENA region, we have bid or are bidding for a number of projects in Qatar, Jordan and Saudi Arabia. We are well positioned to be awarded some of this work in the next few months.

### **Future**

Looking forward, we expect the mining sector in Africa to remain very busy in the short to medium term. Activity in the transport sector should increase when various concessions finally gain traction. Work in the water sector in Africa, mainly water storage and water treatment, is also urgently needed and should develop soon. The power sector has struggled to get moving, apart from the main Eskom projects and a few alternative energy projects. We expect that it will remain slow for some time yet. It is unlikely that PPP's will provide significant turnover in the civil engineering segment in the short term.

In the MENA region, little activity is expected to come from the United Arab Emirates, but large volumes of infrastructure work should be available in Qatar (in the lead-up to the 2022 World Cup) and Saudi Arabia particularly, although it is likely that work in Qatar will be contested by numerous international contractors

Whilst volumes should increase, general pressure on margins will remain until order books have been properly rebuilt, which will take some time given the current depressed position and slow rate of awards.

On current projects, we must still achieve successful close-out of the multi-billion NMPP project, and must satisfactorily settle remaining amounts on legacy projects in the MENA region.

## Engineering: Engineering & Construction (E & C)

Group Five's newly formed Engineering and Construction business has now entered its second year of existence. Its primary focus is offering turnkey solutions to select sectors in the geographic areas in which Group Five operates. Initial sector focus has been on Power, Oil and Gas and Water. This business unit includes a growing capability in the engineering and specialist project management fields. This allows the business to have the technical skills and knowledge to offer services to new clients. Current market conditions and prospects vary by sector, offering different challenges and timing of implementation:

### Power sector

The power sector in Africa including South Africa is beginning to gain some traction. The Group has delivered an equivalent of 900MW of power over the last few years.

**Rest of Africa:** In Africa, the cautious return of private funding is seeing projects previously postponed or delayed returning to viability. This is predominantly driven by availability of coal and gas resources in Africa. Renewable energy in Africa is in its gestation period with some wind projects being developed in East Africa. Specific focus for the group includes the development of privately owned gas fired power projects in West and East Africa. The group has not focussed on any public power projects in Africa as payment guarantees remain a challenge.

**South Africa:** In South Africa, the Integrated Resource Plan has seen the first bidder's period close for the REFIT 1 RFP (Request for Price). Numerous bids were submitted and Group Five has interests in 216MW wind, 160MW solar PV and 23MW hydro projects. Group Five is also participating in the second round bid submission for the same RFP. The private sector too has identified the need for self-sufficiency of power supply and we are in discussions with a number of large industrial users of power to utilise off gasses to provide some relief from their rising power bills. The South African government has reopened discussions around 9600MW of nuclear build and in preparation for this potential spend Group Five has invested in the process of ensuring compliance with nuclear requirements. This compliance program for Group Five will include expansion of nuclear expertise, skills training, and quality and system enhancements in accordance with nuclear standards.

### Oil & Gas sector

The Oil and Gas sector in Africa and South Africa is in the investment phase. Oil and gas finds, need for refined fuels and the mining boom have created demand for fuels and refined products.

**Rest of Africa:** Growth in East and West Africa, due to the discovery of large Gas and Oil deposits, has increased demand for new upstream infrastructure and refinery capacity. The group is cautiously expanding the offering to East Africa.

**South Africa:** Ageing refineries in South Africa continue to undertake planned and urgent maintenance and turnarounds. Group Five is well positioned in this area and has core maintenance operations servicing most of the major refineries. Storage projects for fuels and oils are on the increase and in line with government's requirements to increase minimum storage capacity in the country. The group's alliance with HMT, fuel storage specialists from Houston, has seen numerous storage construction orders being received over the past period. We have seen an increase in projects and orders including various orders from Transnet and Sasol resulting in considerable growth in the groups Oil and Gas business. Completion on some of these projects extends to July 2013.

### Water sector

The Water sector in Africa offers future growth opportunities. The Group is currently bidding several projects, including for Acid Mine Drainage projects.

## Engineering: Projects (SMEIP)

### Market Conditions

During the last few months we have seen a good order intake as high commodity prices within the mining industry leads to construction of mines throughout the African continent.

Enquiries have been received for various mining projects in Southern, Central, East and Western Africa.

### Prospects

Within the Southern African region new Coal, Manganese, Diamonds, Iron Ore, Mineral Sands, Platinum, Uranium and Gold projects are being planned or constructed. The main commodities driving the Central African construction markets are Copper, Cobalt and Gold. In Eastern Africa Gold, Uranium and Mineral Sands are the most active markets and lastly in Western Africa Gold and Iron ore are the main drivers.

### Future

Commodity prices will continue to drive construction within the mining industry. Projects (SMEIP) are well positioned to take advantage of this boom with permanent establishments in Ghana, Burkina Faso and the DRC. We are in the process of establishing a permanent base within Tanzania. Our track record of delivering projects within remote parts of Africa sets us apart from our competitors and the group continues to build a strong reputation within the South African mining industry. Our main focus in the *short to medium term* will be mining projects. We will however continue to explore working with group companies within the Power and Industrial sectors.

### Risks

Rand/Dollar exchange rate remains volatile and needs to be managed during the tender process. The potential nationalisation of mines in South Africa and other African states could have a negative impact on the mining industry. Political instability within many African countries remains a risk and needs to be taken into account when bidding on projects. Our primary focus is to work within the private sector. Chinese and Indian mining companies who import their labour to construct their plants are entering the market. Lack of power in Africa to run mines remains a constraint. This however should lead to the construction of new power plants.

# ERIC VEMER

## Investments and Concessions

### Infrastructure Concessions (Intertoll Group)

**Eastern Europe:** Outlook for new concession projects in the region remains subdued for the next few years. Market with best prospects remains Poland with some new concession projects expected to go to tender over the next 12-18 months. In the interim the business is exploring shorter term (three to five year) operating contracts to augment activities during the quieter period, and has recently successfully secured a small three year operating contract as a sub-contractor on the Polish national truck tolling project.

Underlying financial performance remains sound on back of quality portfolio of secured contracts.

**Africa:** The South African business continues to perform off a stable platform from the recently secured CTROM contracts for the N2 North and N1 South (term 2018), and existing Tsitsikamma and Magalies contracts.

Recently secured contract to operate 10 tolling stations for the national road network in Zimbabwe will commence during H2 FY2012. There are new operating contracts under development in Africa.

Key triumph and concurrent disappointment is securing the Preferred Bidder position on the N1-N2 Winelands toll road with subsequent agreed suspension of the project negotiations pending the outcome of a political review of the project and resolution of inter-governmental matters. Expect a minimum six month delay in the roll-out of this project. Securing a significant South African concession an important part of the future growth strategy of this part of the business.

### Prospects

**Serviced Accommodation:** Financial close negotiations continue for Department of Rural Development and Land Reform and The City of Tshwane Headquarters. Await outcome of Department of Statistics Head Office prequalification. Prisons tender cancelled. Prequalification process for Baragwanath Hospital expected Q3 F2012.

**Transport:** N1-N2 Winelands toll road – announced as Preferred Bidder. Negotiations suspended pending resolution of inter-governmental matters. New projects under development in selected African countries - together valued in excess of US\$650m (R5.3bn - Group Five share). First drawdown has taken place on US\$206m Zimbabwe DBSA facility and construction works commenced.

**Energy and Renewables:** R5bn Kathu Solar project targeted for submission under REFIT round of March 2012.

Bulgarian development remains slow due to EU issues and project financing constraints arising as a result of reform of the power market sector in Eastern Europe.

Jozi Power continues to grow steadily (Group Five interest 35%). Kayema successfully made project submission under first round of REFIT (Group Five interest 25%).

### Property Developments

Worst part of the downturn for the Property Development business is over; cautious and slow recovery underway.

SAPRO and Crystal Park mandates providing regular fee income to assist in covering team running costs.

Residual residential stock sell-down continues. Immediate outlook for value from the Sandton investment properties subdued.

New retail projects under development with strong partners in the Northern Cape and West Africa.

## Building and Housing

### Building

#### **Coastal**

- The Coastal Business Unit operates as a general contractor incorporating building, civils and roads in the KZN and West/East Cape geographical area.
- KZN has been more buoyant than the Cape Region, where the volume of project opportunities has come off significantly.
- Roads opportunities in the region strongly assisted the Business Unit in securing it's forecasted order book.
- The previous consolidation of the region from two separate business units into a single consolidated business successfully achieved a lower operating overhead and the desired economies of scale.

#### **National**

- The National Business Unit operates in the balance of South Africa and in the rest of Africa and is based in Johannesburg. It enjoys the benefit of a shared overhead structure with the Housing Business Unit.
- The Gauteng private sector market has been exceptionally competitive and we have been very careful not to buy order book at negative margins.
- As preferred bidder on two of the PPP project opportunities available, namely Munitoria and Department of Land Reform in Tshwane, we are well positioned on quality order book albeit that financial closure has taken frustratingly longer than we would have hoped for.
- The National business has re-entered the cross border African market in both Central and Western Africa. Three projects have been well executed in Zambia. Our approach in West Africa, namely Ghana and Nigeria, has been cautious but thorough and we have established a foothold in the area. Our target market is private sector together with bankable payment guarantees, as opposed to public sector.

### Housing

- Following two very difficult years in the mass housing market, an encouraging increase in the order book is being achieved.
- The order book is predominantly in the mining and BNG (Breaking New Ground) sectors.
- We are also currently executing a mass housing contract in Zambia.
- We have been following a number of projects, expected to be awarded in the 4<sup>th</sup> quarter. This work should be executed in F2013.

## Manufacturing

### Everite & ABT

**Everite:** Generally, the market is showing signs of recovery, with the level of order activity slowly improving, aided by increasing export activity on the back of the weakening Rand. The focused strategy of improving factory efficiencies and cost reduction of the past three years will bear fruit in F2012, as margins are beginning to recover on improving volumes. A number of our merchant clients have increased their efforts to further penetrate rural and informal markets and, as such, are better serving a growing sector for Everite.

The weaker Rand will have a lagged effect on reducing import competition, further aiding the recovery in the second semester. The weakening Rand is also aiding exports to Sub Saharan Africa where we see encouraging signs as orders increase.

**ABT:** Volumes have been hampered during the first half year due to the fact that government projects have been slow to be released and we have also been cautious to deliver against acceptable payment performance.

### Steel

**Structural Steel:** During the last Quarter, the decision to close our loss making Structural Steel business was made as poor market opportunities and pricing, coupled with weak internal efficiencies, hampered the viability of the operation. The closure costs will be borne in H1.

**BRI:** Is showing good resilience in tough market conditions although the general steel workers strike in July and Arcelor Mittal's problems with steel supply have negatively impacted performance. Our investment in additional mesh capacity, which enables entry into the counter-cyclical mining industry, will be commissioned in November and will aid an expected recovery in H2.

**Group Five Pipe:** A number of large pipe manufacturing jobs have been delayed and some put out for retender. During the period, half of the workforce was released due to the lack of awards. There is currently good tender activity with prospects for an improvement in trading in H2.

## Construction Materials

### Market conditions

The market for aggregates from fixed geography quarries in Gauteng remains challenging with local volumes continuing to slide from the extremely poor levels at year end June 2011. The Gauteng ready mix market is equally tough with the cement majors dominating as they seek to protect important market channels to sell their cement powder. Pricing pressures remain due to excess installed capacity chasing an ever diminishing economically viable market.

Market consolidation and business failures will continue in this negative market.

### Operational update

#### **Aggregates**

Volumes in our Laezonia quarry have reached levels that bring the running a continuous mining operation into question. We have implemented a campaign process whereby we mine and crush periodically and sell off stockpiles. We have experienced a further 10-15% reduction in off- take of from the poor levels reported in June 2011. Pricing pressure continues.

#### **Ready mix**

In an effort to further reduce operating costs, another 4 batch plants have been placed on care and maintenance, reducing the operating units to five. The number of contracted delivery vehicles has also been reduced to match the new footprint of plants.

The construction majors continue to drive cost out of their bids in an effort to survive, placing significant pressure on the entire material supply chain including ready mix markets. Pricing therefore remains pressured with the cement owned ready mix operators usually supplying the larger contracts.

#### **Mobile crushing services**

We have concluded three contracts and are cycling into new work wherever possible. Margins in the contracting market remain tight due to the significant amount of surplus crushing equipment available post the recent market highs.

#### **Strategy/actions to counter drain on group earnings and group cash**

- Further cost cutting – we have moved into a shared Group Five structure to benefit from existing structures and to remove cost.
- Logical next steps in progress

## Risk Management

### Risk Management Philosophy

The Group's approach to risk remains focused on the management of risk rather than the total elimination and as such the group pursues opportunities involving some degree of risk.

Thus the Group's risk philosophy gives full and due consideration to the balance between risk and reward to ensure optimisation of the rewards gained from each business unit's activities.

### Key Risks facing Group Five currently

#### 1. Rebuilding the construction order book

- 1.1 Increased competition / buyers' market
- 1.2 Market erosion
- 1.3 Cost structure / overhead
- 1.4 Cash absorption
- 1.5 Retention of core teams / skills

##### Mitigation

- Risk bearing capacity – a tool to measure company resilience
- Find new markets (less competition)
- Cut cost base
- Find new ways to incentivise key skills

#### 2. Middle East

- 2.1 Debt collection
- 2.2 Order book
- 2.3 New Territories

##### Mitigation

- Negotiate settlement terms on terminated contracts
- Expand into broader Mena region (Saudi Arabia)
- Use lessons learnt from expansion into Africa to guide our expansion into Mena.
- Choice of local partners

#### 3. Expanding African footprint

- 3.1 Security
- 3.2 Corruption
- 3.3 Logistics
- 3.4 Compliance

##### Mitigation

- Use lessons learnt and Group Policy / Procedure to ensure new liabilities are not created

#### 4. Competition Commission

- Group submitted its findings of its internal interrogation to Compcom in 2010
- Co-operated with commission – assisted with understanding of industry and its history
- Achieved conditional leniency for all submissions which have been adjudicated so far
- We do not expect a fine, but no guarantees
- Will co-operate with the Commission and maximise their leniency policy

## **Human Resources and BBBEE**

### **Human Resources**

#### **Staffing**

The Group's headcount figures decreased since year end. A number of business units have implemented retrenchments and these included Construction Materials, Buildings, Coastal and the corporate head-office.

The current driver of headcount is the labour intensive public sector work where the projects require job creation and labour intensive methods of construction e.g. the terminal buildings and pump stations and the work with Transnet.

It is expected that there will be a reduction in the general staff compliment during F2012 as the Group matches resources with weak markets, whilst retaining its core operational capacity.

We continue to offer an employment proposition which includes the most important motivational issues as identified by research and what is of value to the type of employee we look for - a quality work environment, competitive remuneration, development and development opportunities.

#### **Remuneration**

Remuneration at a senior and executive level is an area that is being reviewed to align remuneration with performance and shareholder returns.

In these markets disclosure on executive and senior management remuneration and payment policies is warranted. A key aspect of how Group Five retains its executives and senior managers is that, though incentives are earned based on that particular year's performance, the pay-outs are made over the next two financial years with a split of 60% in the 1<sup>st</sup> year and 40% in the following.

The above approach allows for incentives earned in the year of performance to act as a retention component.

That said key employees are still being approached by competitors and offered large guaranteed packages. The group will be taking a conservative view on its annual increase process, but the key focus is the guaranteed pay of our scarce and critical employees.

### **BBBEE**

The Group continues to drive its BBBEE status in the sector and is in the process of being audited. Group Five's current status is a Level 2 empowered organisation.

