

GROUP FIVE LIMITED
 GROUP UPDATE &
 FOCUS AREAS FOR F2013
 UPDATE: NOVEMBER 2012

Manufacturing

Key focus areas for F2013	Desired results	Progress
Manufacturing		
Segment offering <ul style="list-style-type: none"> • Fibre Cement <ul style="list-style-type: none"> ○ Exterior and interior walling, ceiling boards, roofing systems, pipes and fibre cement-clad steel-framed modular structures • Steel <ul style="list-style-type: none"> ○ Large bore coated, lined and reinforced steel pipes, scaffolding, formwork and steel reinforcing for use in concrete structures 		
Margins	<ul style="list-style-type: none"> • 5–7% short term range 	<ul style="list-style-type: none"> • Unchanged
Increase capacity at Everite through machine modification and process improvements. There will be a strong focus on capital expenditure balanced against return on investment	<ul style="list-style-type: none"> ⇒ Build sufficient finished goods capacity to meet demand and to improve service levels. Supply the rapidly developing modular structures and export markets 	<ul style="list-style-type: none"> ⇒ Capital expansion plan commenced with regards to a new production line ⇒ Design phase of the new line is well advanced and physical plant build will commence in H2 F2013 ⇒ Capacity has additionally been increased by withdrawing certain low volume products to focus the lines on longer, more efficient production runs ⇒ Smaller capex spend occurred in H1 F2013 as the group invested in downstream improvements (primarily material handling equipment) to unlock capacity constraints
Continue to seek a strong technology partner for Everite, as the business is driven to rapidly expand its product offering in both the traditional and alternative structures market	<ul style="list-style-type: none"> ⇒ Improved returns for all stakeholders as we broaden the product offering, whilst reducing cost through technology advancement 	<ul style="list-style-type: none"> ⇒ Approached a number of global fibre cement players over the last few years. The group is hopeful of progressing to a technology tie up in F2013/F2014
Further differentiate the product offering of BRI by reducing its reliance on low-margin contracted steel fixing	<ul style="list-style-type: none"> ⇒ Grow the mining mesh and trading product activities to reduce the business risk of contracting and to improve overall business returns 	<ul style="list-style-type: none"> ⇒ The strategy included fully utilising the new high volume mesh line and selling commodity mesh at margins above those achievable in contract steel reinforcing. Production and sales targets surpassed in H1 F2013

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		<ul style="list-style-type: none"> ⊕ The reliance on contracting (low margin) is decreasing as mesh and other trading opportunities are developed
<p>Further develop the ABT business through additional product development into prefabricated permanent structures as government regions phase out temporary transition structures (TRAs)</p>	<ul style="list-style-type: none"> ⊕ Grow the fibre cement sheet market in Southern Africa by actively developing and promoting permanent modular structures, which will yield good returns in both Everite and ABT 	<ul style="list-style-type: none"> ⊕ Successfully supplied prefabricated mining contractors' camps for Group Five and 3rd party mine constructors in Africa ⊕ Within the local South African market the product offering has evolved from temporary accommodation units to permanent housing and other structures ⊕ Our ABT product is recognised as a product of choice in many provinces

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Risk		
Support the finalisation of discontinued operations	<ul style="list-style-type: none"> ⊕ Successful and timeous disposal of assets within the 2012 calendar year 	<ul style="list-style-type: none"> ⊕ Despite having agreements in place for the disposal of these assets, legislative requirements of the Competition Commission and the Department of Minerals and Resources have delayed the transfer of ownership ⊕ <i>Refer group update for additional information</i>
Close out the group's position with the Competition Commission investigation	<ul style="list-style-type: none"> ⊕ Close investigation without any fines or penalties 	<ul style="list-style-type: none"> ⊕ Full co-operation has been provided in all matters being investigated by the Commission ⊕ We maintain our expectation of "Zero Penalty" based on our complete cooperation
Improve the group's loss-maker ratio	<ul style="list-style-type: none"> ⊕ Use the group's current systems to monitor the overall risk profile of the group against our risk appetite and capacity ⊕ Factor in the lessons learnt from the loss-making contracts into contract bidding risk filter processes ⊕ Implement a mid-contract auditing regime against the assumptions made at the bid stage and consider changes in contract environment 	<ul style="list-style-type: none"> ⊕ A risk-bearing capacity model was implemented and is currently being updated ⊕ Lessons learnt from loss-making contracts are currently utilised in risk review process, but will be further entrenched with the implementation of a revised risk structure and updated policies and procedures ⊕ A mid-contract review team has been formed and review of contracts will begin in the third quarter of the current financial year ⊕ Overall loss-making ratio largely unchanged from that reported in June 2012 (excluding and including Middle East losses)
Support the resolution of debt collection in the Middle East	<ul style="list-style-type: none"> ⊕ Commercially close out terminated and completed contracts in the Middle East and secure debt settlement agreements 	<ul style="list-style-type: none"> ⊕ Significant progress has been achieved in this area with mothballing and or exiting strategies complete in H1 F2013. ⊕ <i>Refer group update for additional information</i>

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Risk		
Support the group's geographic expansion	<ul style="list-style-type: none"> ⊕ An effective structure, policies, levels of authority and segregation of responsibilities to provide an additional level of control to support the group's expansion strategy 	<ul style="list-style-type: none"> ⊕ A revised risk structure to support the group's expansion strategy has been completed and approved by the Group Risk Committee. ⊕ Updated policies, levels of authority and segregation of responsibilities based on the new structure are currently being developed and will be implemented in the second half of the current financial year
Manage our exposure to the current market conditions	<ul style="list-style-type: none"> ⊕ With market conditions currently not favouring the contractor, focus will be on both bid selection criteria and execution to mitigate risk to potential contract failures 	<ul style="list-style-type: none"> ⊕ The mid-term review team will be involved in the risk review process and the mid-term review of projects to ensure that bid selection risk and execution risk are adequately mitigated ⊕ This process is to be implemented in the second half of the current financial year
Use the existing risk management system and the risk bearing capacity (RBC) tool as a basis from which to develop an updated risk profile of the group	<ul style="list-style-type: none"> ⊕ Complete the implementation of the system to allow management to compare and monitor actual values at risk with the group's tolerance levels and desired risk appetite 	<ul style="list-style-type: none"> ⊕ An updated risk profile of the group will be finalised in the second half of the year and after finalisation of the RBC tool
Key risks to be captured in the group's combined assurance model	<ul style="list-style-type: none"> ⊕ All key risks incorporated in the group's combined assurance model and the mitigating actions allocated and monitored 	<ul style="list-style-type: none"> ⊕ All key risks have been included in the combined assurance risk framework. The framework, together with action plans and three levels of defence, has been presented and approved by the audit and risk committees ⊕ The controls identified to mitigate risks are currently being implemented in the business and internal audit will review effectiveness of the controls in the fourth quarter of the current financial year

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Risk		
Effective contract risk reviews	<ul style="list-style-type: none"> ⊕ Deploy the correct resources and conduct mid-contract risk reviews of all material contracts to identify potential non-performing contracts at an early stage and to take corrective action to prevent losses 	<ul style="list-style-type: none"> ⊕ The mid-term review team has been formed and mid-term audits of material contracts will be undertaken in the second half of the current financial year
Entrench a culture of learning through disciplined processes to evaluate contracts after completion	<ul style="list-style-type: none"> ⊕ Entrench the discipline of closing out completed contracts, with formal lessons learnt reviews to be captured and analysed by management and with relevant employees. This information must be incorporated into the risk review process to improve bid selection and delivery on future contracts to reduce our loss-maker ratio 	<ul style="list-style-type: none"> ⊕ This process has started, but will be further entrenched upon implementation of the new risk structure and updated policies and procedures within the group
Address resources in light of increased risk profile of markets and target contract types	<ul style="list-style-type: none"> ⊕ An effective structure, policies, levels of authority and segregation of responsibilities to provide an additional level of control to support the group's expansion strategy 	<ul style="list-style-type: none"> ⊕ A new risk structure to support the group's expansion strategy has been completed and approved by the Group Risk Committee ⊕ Updated policies, levels of authority and segregation of responsibilities based on the new structure are currently being developed and will be implemented in the second half of the current financial year

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Human Resources		
Build skills required for the future and retain critical capability	<ul style="list-style-type: none"> ⊕ As the group invests in certain new sectors where it anticipates growth, we are focusing on the correct balance between investment in the required resources against the expected return 	<ul style="list-style-type: none"> ⊕ A centralised recruitment office will be established with a focus on effective and efficient recruitment ⊕ This will address at least the top 10 most commonly recruited and / required positions
Further improve our BBBEE status	<ul style="list-style-type: none"> ⊕ We have achieved a level 2 BBBEE rating. We are currently focusing on enhancing the success at individual contract levels, which will improve the quality of our transformation process and meet the group's objectives in terms of its employment equity plan 	<ul style="list-style-type: none"> ⊕ The group has recently been audited with results expected early c2013. It is expected that we will maintain our level 2 status ⊕ Procurement from black enterprises and enterprise development is a key differentiator in public sector work and is a focus area for the group at a project level ⊕ The updated ownership transaction was pleasingly approved by shareholders on 27 November 2012 ⊕ Our demographic profile at a senior and professional level will remain a challenge and is currently a focus area for the group
Culture change to ensure even closer cooperation between business units and the enhancement of a single team culture	<ul style="list-style-type: none"> ⊕ The ability of the group and its respective disciplines to increasingly operate as a single entity will enhance the group's success on large, multi-disciplinary contracts. This has become even more critical in a market where competition has increased and the margin for error is increasingly becoming smaller 	<ul style="list-style-type: none"> ⊕ Focused change management programmes have been introduced into the group to support the group's efficiency and restructuring initiatives ⊕ Programmes, run through our training academy, ensure diversity and foster better understanding and integration between group disciplines