

MACQUARIES CONSTRUCTION CONFERENCE  
attendance at Q&A session 4 June 2013



# Question & Answer Session – Macquarie Construction Conference

Questions raised by participants at conference	Status update provided by group
<p><b>Group matters</b></p> <p><b>Order Book</b></p> <ul style="list-style-type: none"> <li>• Please provide an update on the order book</li> </ul>	<ul style="list-style-type: none"> <li>• No further disclosure made since interim reporting in Feb 2013, but can disclose that Contracting order book holding position</li> <li>• Some uptick in Operations &amp; Maintenance order book off the back of renewable contracts won</li> <li>• Geographically not materially changed</li> </ul>
<p><b>Group matters</b></p> <p><b>Margins</b></p> <ul style="list-style-type: none"> <li>• Please provide status update on operating margins</li> <li>• Have margins stabilised</li> </ul>	<ul style="list-style-type: none"> <li>• Overall market is still weak and hence margins are still constrained in SA, particularly in Buildings segment where group may not meet its targeted range in the short term</li> <li>• Otherwise underlying operating margins in line with expectations</li> <li>• Margins would appear to have bottomed with some pockets of pricing improving slightly.</li> <li>• Largest area of volume and margin improvement has come from, and is expected to continue in, new markets where the group has invested and developed in recent years as opposed to improvement in general market conditions</li> </ul>

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<p><b>Group matters</b></p> <p><b>South African Infrastructure spend</b></p> <ul style="list-style-type: none"> <li>• Please provide comment on the groups current operating environment including timing of South Africa public infrastructure spend</li> <li>• Are there “green” shoots of activity noted</li> </ul>	<ul style="list-style-type: none"> <li>• The public sector infrastructure spend is material but the group expects that this budget will reach construction companies only within 18 – 24 months</li> <li>• Planning process is gaining momentum.</li> <li>• Capacity to implement and funding remain in question.</li> </ul>
<p><b>Group matters</b></p> <p><b>Competition Commission</b></p> <ul style="list-style-type: none"> <li>• Any further update regarding materiality or range of exposure if any</li> <li>• Any requirement for provisioning for fines</li> </ul>	<ul style="list-style-type: none"> <li>• The group remains the leniency candidate with respect to the Commission’s investigation into the Construction industry although zero fine can not be confirmed, as indicated in previous communications</li> <li>• The group focus is to ideally be in a position to disclose final arrangements with the Commission with the group’s year end reporting in August</li> <li>• The group maintains its position previously reported and does not expect any material exposure</li> </ul>

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<p><b>Group matters</b></p> <p><b>Working capital</b></p> <ul style="list-style-type: none"> <li>• Current positioning and expectations for future years</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet structure largely unchanged</li> <li>• Working capital unwind noted but largely in line with forecast</li> <li>• No liquidity pressure</li> <li>• Structure of future cash flow on contracts dependent on the nature and location of contracts</li> </ul>
<p><b>Group matters</b></p> <p><b>Investment opportunities</b></p> <ul style="list-style-type: none"> <li>• Status update on group’s investment into previously indicated strategic focus areas</li> </ul>	<ul style="list-style-type: none"> <li>• Market has limited ability to do this to some extent</li> <li>• However some investment has taken place to date</li> <li>• Opportunities are identified and being targeted</li> </ul>

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<p><b>Group matters</b></p> <p><b>Labour</b></p> <ul style="list-style-type: none"> <li>• Has the group experienced labour issues during the year</li> </ul>	<ul style="list-style-type: none"> <li>• Both the Construction and Manufacturing clusters have experienced pressure with volatile labour action during the year</li> <li>• A strike was experienced in Manufacturing which was monitored and managed</li> <li>• Large profile contracts in power sector including Kusile remain targets with regards to labour matters and Eskom has been directly involved in addressing these issues</li> </ul>

## Conference

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<p><b>Investments &amp; Concessions Intertoll</b></p> <p><b>N1&amp;N2 Roads PPP:</b></p> <ul style="list-style-type: none"> <li>Please provide status Update on N1 / N2 roads contract award and start dates</li> </ul>	<ul style="list-style-type: none"> <li>Contract was awarded but now held back due to legal challenges between govt. and SANRAL.</li> <li>SANRAL lost CoCT interdict, but continues to defend its legally mandated position.</li> <li>The group continues to support SANRAL's defence.</li> <li>It is not reported within the groups order book or forecasts at this time.</li> <li>Government supports road infrastructure as guided by SIPS projects</li> <li>The group pursues this delivery model in rest of Africa</li> </ul>
<p><b>Manufacturing</b></p> <ul style="list-style-type: none"> <li>Please provide status update on volumes and performance</li> </ul>	<ul style="list-style-type: none"> <li>Segment volumes and performance holding up however some pressure in Q4</li> <li>Good performance from the most material portion of the cluster being Fibre-cement</li> <li>Group Five Pipe increased order book</li> <li>BRI margins a difficult environment however no material underperformance or stock write off's exist and limited extent of steel held</li> </ul>

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<p><b>Construction: Building &amp; Housing</b></p> <p><b>Buildings Trading conditions</b></p> <ul style="list-style-type: none"> <li>• Has there been any improvement in volumes and pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Trading conditions in the sector remains tough and, as previously advised, this segment will do well to achieve the lower end of margin guidance</li> <li>• Contract execution and trading performance however in the segment has been strong</li> <li>• Slight improvements in margin in tender market only realised in Q4 F2013</li> </ul>
<p><b>Construction: Civil Engineering</b></p> <p><b>Kusile power contract</b></p> <ul style="list-style-type: none"> <li>• Please provide operational status update</li> </ul>	<ul style="list-style-type: none"> <li>• Project is running to revised but challenging programmes.</li> <li>• A number of matters require attention including labour strikes, scope changes, commercial considerations which are being actively managed by the joint venture.</li> <li>• Engagement with client, Eskom, is ongoing, challenging but positive</li> </ul>

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<p><b>Construction: Civil Engineering</b></p> <p><b>Transnet NMPP Pipeline, Pumpstations and Terminals</b></p> <ul style="list-style-type: none"> <li>Please provide status update on contract completion</li> </ul>	<ul style="list-style-type: none"> <li>Pipeline: Completed, commissioned and in use. In discussions with client to complete final account</li> <li>Pump-stations: Contracts complete. In discussions with client to complete final account</li> <li>Terminal contracts: Under construction, scope growth and programme extended</li> <li>Engagement with client, Transnet, is challenging but positive</li> </ul>



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<p><b>Construction: Projects</b></p> <p><b>Cross border opportunities</b></p> <ul style="list-style-type: none"><li>• Has competition increased in this segment and generally in the groups markets with the number of international countries accessing Africa</li></ul>	<ul style="list-style-type: none"><li>• Some additional competition noted.</li><li>• Have not lost significant quantum of contracts to others</li></ul>

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<p><b>Construction: Engineering &amp; Construction</b></p> <p><b>Power</b></p> <ul style="list-style-type: none"> <li>• What is status on renewable contracts awarded</li> <li>• What portion of the contracts is the group involved in</li> </ul>	<ul style="list-style-type: none"> <li>• 2 window 1 Wind projects and 1 window 1 Concentrated Photo Voltaic contract secured.</li> <li>• 1ne window 2 Photo Voltaic contract secured.</li> <li>• All above four renewable wind &amp; solar contracts are EPC contracts and include the award of long term operations &amp; maintenance contracts</li> <li>• Contracts in early stages of completion</li> <li>• The group is involved in all aspects of the EPC including O&amp;M but excluding development returns as the group has not invested equity in these projects</li> </ul>
<p><b>Construction: Engineering &amp; Construction</b></p> <p><b>Power</b></p> <ul style="list-style-type: none"> <li>• What return on equity and margin targets have been set for this business</li> <li>• Are returns for developers adequate following re-pricing of rates</li> </ul>	<ul style="list-style-type: none"> <li>• The group targets a ROE of between 15% -20% at group level</li> <li>• The net margins set for this business remain unchanged (3-5%) as previously reported</li> <li>• Rates more attractive in Round 1 than 2 for developers. Decrease in global PV equipment input costs on Round 2 projects assists developers with their returns</li> </ul>

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Questions raised by participants at conference	Group status update
<p><b>Construction: Middle East</b></p> <p><b>Recoverability of receivables</b></p> <ul style="list-style-type: none"> <li>• Please provide status update on cash collection</li> </ul>	<ul style="list-style-type: none"> <li>• Cash on previously terminated contract, which debt was certified in prior year, continues to be in received in line with agreed payment schedule</li> <li>• Engagement with client on other terminated contract is positive. Certification took place in F2013, receivables collected and advance payment to be refunded to the client reduced .</li> <li>• The group continues with successful collection of outstanding debts and certification on final remaining contracts</li> <li>• Operating losses have been larger than originally forecasted as include additional overhead costs and contract losses previously reported in H1 F2013.</li> </ul>
<p><b>Construction: Middle East</b></p> <p><b>Future activities</b></p> <ul style="list-style-type: none"> <li>• Will the group consider tender opportunities in the region</li> </ul>	<ul style="list-style-type: none"> <li>• Not in the short to medium term as excess local capacity available and margins are weak</li> <li>• The group has removed all development and operational capacity in the region and incurs only commercial close out overhead costs</li> </ul>

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<p><b>Discontinued operations: Construction Materials</b></p> <ul style="list-style-type: none"> <li>• Status update on disposal of discontinued assets?</li> <li>• Will there be an adjustment to carrying value?</li> </ul>	<ul style="list-style-type: none"> <li>• All business sold except one in negotiation, final sale expected in June/July 2013</li> <li>• Competition Commission clearance obtained for all transactions.</li> <li>• DMR approval outstanding on sale transactions</li> <li>• Write down to carrying value will be assessed for year end reporting, do not expect an additional material adjustment to be required</li> <li>• Operating performance in H2 is weak but in line with management expectations</li> </ul>