

# ATTENDANCE AT MACQUARIES CEO CONFERENCE

Wednesday 28<sup>th</sup> October 2015



## Macquarie CEO Conference – attendance at Q&A session

Questions posed by attendees	Responses provided by management
<p>Update on Engineering &amp; Construction market conditions</p>	<ul style="list-style-type: none"> <li>• Building - activity levels still high – both private and public sector; currently 100% South African order book, tender margin pressure stabilised</li> <li>• Housing – steady and solid performance, numerous opportunities not added to order book as contracts are added &amp; executed only when client funding is secure</li> <li>• Civil Engineering - further retrenchments and cost cutting underway, in excess of what had been planned, very tight trading conditions, roads contract tenders available in market, limited prospects elsewhere</li> <li>• Projects - limited activity in mining in line with depressed commodity prices; active in supporting multidisciplinary energy contracts awarded to the group</li> <li>• South Africa – difficult trading conditions, limited contract awards</li> <li>• Rest of Africa – well positioned however incubation period from development to award of contact remains lengthy</li> </ul>

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<p>Income drivers within Investment &amp; Concessions</p>	<ul style="list-style-type: none"> <li>• Income is generated mainly from Intertoll European operations as operations &amp; maintenance operator</li> <li>• Operating roles include toll systems design, procurement and installation, toll collection, routine road maintenance, winter maintenance etc.</li> <li>• In addition the group earns investment income in the form of fair values on investments made in the concession company</li> <li>• Traditionally operated in Eastern Europe but pursuing projects in further east Eastern European countries such as Kazakhstan and Russia; recently also awarded a specialist advisor role in USA, not material financially but important strategically</li> <li>• Operate circa 50% of South Africa's SANRAL owned national toll roads</li> <li>• Opportunity for concessions business in rest of Africa is material and could equate to that of Eastern Europe in medium to long term</li> <li>• Property developments – niche investor aligned with group construction opportunities</li> <li>• Power investment opportunities, primarily in support of EPC role</li> </ul>

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Nuclear capability	<ul style="list-style-type: none"> <li>• Only South African listed construction company that is Level 1 nuclear accredited</li> <li>• Currently working on Koeberg nuclear site with local and international partners – plant maintenance works</li> <li>• Wish to be the localised partner of choice when nuclear spend commences - well positioned if nuclear happens</li> </ul>
Impact of property business	<ul style="list-style-type: none"> <li>• <i>Question:</i> Could property business assist buildings segment in replenishing order book? – <i>Response:</i> In South Africa would not be substantial driver but has the potential to do so in rest of Africa</li> </ul>
Competition Commission (CC) Update	<ul style="list-style-type: none"> <li>• Conditional leniency granted for submissions made to CC</li> <li>• 4 cases raised by CC as potential transgressions &amp; group had not included in it's submissions</li> <li>• 2 of these cases have been subsequently dropped by CC</li> <li>• Remaining 2 referred to Tribunal</li> <li>• Current media articles issued within the week relate to             <ul style="list-style-type: none"> <li>• - 1 of the referred cases, where group is enforcing its legal rights to encourage CC to disclose the evidence it has in support of possible transgression</li> <li>• - a contract, for which the group has received leniency, on which CC is progressing to Tribunal with another construction company</li> </ul> </li> </ul>

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<p>Competition Commission (CC) Update</p>	<ul style="list-style-type: none"> <li>• <i>Question:</i> What is materiality of the fine and size of provision raised, would it not be better to settle outstanding matters with the CC to allow commencement of repair of relationship between public sector and construction sector</li> <li>• <i>Response:</i> The size of provision raised and materiality of the fine can not be disclosed at this time. The group is conscious of its broader relationship with the public sector and considers this when assessing its responsibility with regards to the CC. Separate engagements with the public sector are ongoing and required to forge the way forward for sector in the future and settlement of CC cases in isolation is not sufficient to unlock infrastructure spend going forward.</li> </ul>
<p>Competition and excess capacity within the roads sector in South Africa</p>	<ul style="list-style-type: none"> <li>• <i>Question:</i> Competitors have said that the number of competitors in the roads sector have increased is this correct</li> <li>• <i>Response:</i> Yes tender awards available but competitive market so unique differentiator in tender costing is required in order to win award</li> </ul>
<p>Margin guidance provided previously – relates to what period</p>	<ul style="list-style-type: none"> <li>• Previously reported that guidance provided refers to medium term i.e. beyond 1 financial year and that where additional guidance is added to a segment e.g. “short term lower end of the range” would indicate for the current financial year being short term</li> </ul>

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<p>Support by South African DTI/Government for projects in Africa still seen?</p>	<ul style="list-style-type: none"> <li>• Yes strong support and group well aligned to their initiatives</li> <li>• SA credit support available for Rest of Africa countries</li> <li>• However “SA Inc.” balance sheet in itself is small for some of the large projects and thus may need to partner with international partners (China, India, European, American etc.) to access multiple credit sources</li> </ul>
<p>Problematic contracts update</p>	<ul style="list-style-type: none"> <li>• Eastern Cape project previously reported is now essentially complete</li> <li>• Risk of penalties previously disclosed, which had not been provided for as group did reflect it as possible but not probable, has not materialised, and hence is no longer a risk</li> <li>• The “sister” contract to this Eastern Cape project is located in KZN. It is receiving focus by senior management and executive and operational heads are comfortable with current performance. It has however been impacted by labour strikes which has delayed the project. Management have a co-operative relationship with client to address these issues.</li> </ul>

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Debtors recoverability from public sector	<ul style="list-style-type: none"> <li>Public sector in the past have been good at settling on certifications and are “good payers”</li> <li>National priority contracts require intensive commercial management which can impact “lumpiness” of contract cash flows</li> <li>Group has disclosed that, in last few reporting periods, settlement of certified balances by clients has in some instances been delayed . This relates to mainly private sector clients in South Africa and Rest of Africa but does also include national priority public sector contracts</li> </ul>
Status update on Kpone power plant construction	<ul style="list-style-type: none"> <li>Foundations being cast</li> <li>Procurement fully placed and items are being manufactured</li> <li>Contracts for main subcontractors placed, or being placed</li> <li>In line with programme</li> </ul>

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