SOUTH AFRICAN FEDERATION OF CIVIL ENGINEERING CONTRACTORS

State of the South African Civil Industry

3rd Quarter 2013

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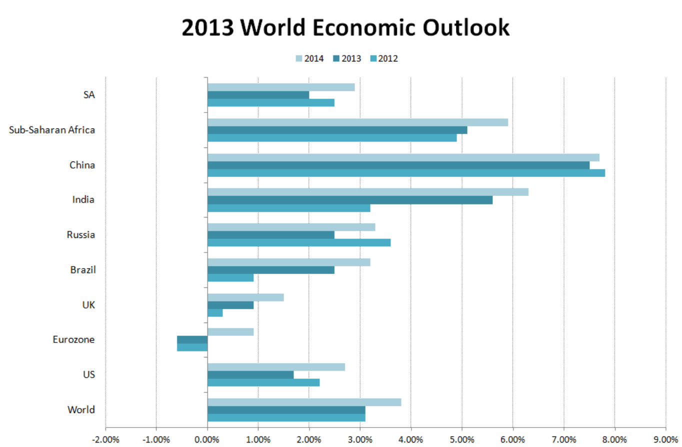
ECONOMIC BACKGROUND

Demand is weaker than expected, slower growth in emerging markets and a more protracted recession in the Euro area.

Global growth is projected to remain subdued at around 2,9 percent in 2013, on par with 2012. This is less than the IMF forecast in their April 2013 report. Demand is weaker than expected, growth slowed in several of the emerging markets, and a more protracted recession in the euro area. There are still major downside risks to the global growth outlook, including the impact of the anticipated unwinding of the monetary policy stimulus in the US, which could lead to capital flow reversals in emerging economies. The IMF has placed South Africa among a group of countries that are vulnerable to global risk perceptions. Other countries on the "less resilient to capital flows" list include Argentina, India, Pakistan, Indonesia, Romania, Turkey and Venezuela. This in turn, impacts on investor confidence and sheds further doubt on South Africa's economic growth outlook, which was lowered to a modest 2 percent by the IMF in their latest World Economic Outlook report. This is in line with Reserve Bank growth estimates.

Table 1: World Economic Outlook (Source: IMF July 2013)

	2012	*2013*	*2014*
World	3.1%	3.1%	3.8%
US	2.2%	1.7%	2.7%
Eurozone	-0.6%	-0.6%	0.9%
UK	0.3%	0.9%	1.5%
Brazil	0.9%	2.5%	3.2%
Russia	3.60%	2.5%	3.3%
India	3.2%	5.6%	6.3%
China	7.8%	7.5%	7.7%
Sub-Saharan Africa	4.9%	5.1%	5.9%
SA	**2.5%**	**2.0%**	**2.9%**



Domestic Economy

The Reserve bank lowered their growth outlook for South Africa from 2,4 percent in 2013 to 2,0 percent and from 3,5 percent in 2014 to 3,3 percent. Risks include challenges to overcome electricity supplies and strike action. Underlying the sluggish growth outlook is the low growth in gross fixed capital formation, from 4,3 percent (annualised) in 2012Q4 to 2,5 percent in 2013 Q1. Private sector spending continues to slow, while delays on projects such as Medupi impacted negatively on spending by state owned enterprises (Eskom). Unfortunately fixed investment is likely to remain affected by low business confidence and electricity constraints. The output gap has widened and is only expected to narrow during 2015, when actual economic growth is more in line with potential GDP.

The South African economy grew by an estimated 3,0 percent the 2nd quarter of 2013, from 0,9 percent in Q1. Higher growth in the 2nd quarter was supported by an 11,5 percent increase in the manufacturing sector. Growth was however capped by a further contraction in the agriculture and mining sectors. Although government expenditure increased by 9,2 percent in the first six months of 2013, compared to an increase of 6 percent in revenue, Pravin Gordhan remains optimistic that the current account deficit is manageable. According to Gordhan SA has the space to attract enough inflows to fund the current account shortfall. Unfortunately the impact of strike action in the 3rd quarter of 2013 must be considered, as investors are shying away from risky emerging markets.

South Africa's trade with the global community has fallen deeper into negative territory. The gap between export income and imports, rose to a cumulative deficit of R107 billion up to August 2013, compared to R69.9 billion during the same period last year. This implies growing underlying risks to the currency, a factor also highlighted in the latest IMF report. The Reserve Bank has recently announced that SA's economy faced a very difficult year ahead with its vulnerable balance of payments threatened by a low level of exports and the prospect of further capital outflows. There is an urgent need to increase exports in order to address the balance of payments.

With the Reserve Bank having set an upper inflationary target of 6%, it must remain committed to contain price inflation. However, the curent situation, one characterised by staginflation, is a major challenge to the bank, as it needs to somehow balance higher inflation amidst a low growth environment. Generally economies struggle to escape the grips of staginflation and it could take years for the economy to reach a healthy balance. In essence the bank does not have any instruments by which to control consumer behaviour. Inflation is not fueled by higher consumer demand (as seen by the dwindlng state of the economy), but rather by external factors. Rising interest rates will therefore have no impact, other than push the economy into a sharper contraction. Demand for fuel and food is not price sensitive. Thus, what measures can the bank take to curb inflation without stalling the economy. One opinion is to monitor specific items, locally produced and consumed to understand the underlying price pressures and not only those imposed from abroad. Keeping interest rates unchanged over time actually leads to a gradual increase in debt ratio's. Thus simply doing nothing is also not the answer. The only measurement, for which South Africa has sufficient leverage (for now) is to reduce the repo rate by a further 50 basis points. This may encourage stronger economic growth without necessarily fueling underlying prices. Global price volatility, affecting the currency and the price of oil, is here to stay and that is something we will always have to deal with. Movement in the exchange rate of the rand continue to pose the main upside risk to the inflation outlook.

Table 2: Gross Domestic Product at market prices

	2009 Annual	*2010 Annual*	*2011 Annual*	*2012 Annual*	*1st Quarter 2012*	*2nd Quarter 2012*	*3rd Quarter 2012*	*4th Quarter 2012*	*1st Quarter 2013*	*2nd Quarter 2013*
Agriculture, forestry and fishing	-3.00%	0.49%	-0.1%	2.3%	3.4%	9.3%	7.4%	10.0%	-4.9%	-3.7%
Mining and quarrying	-4.2%	5.5%	0.3%	-4.0%	-16.8%	30.9%	-12.7%	-9.3%	14.6%	-5.6%
Manufacturing	-10.4%	5.4%	3.6%	2.4%	7.7%	-0.8%	1.2%	5.0%	-7.9%	11.5%
Electricity and water	-1.6%	1.7%	1.1%	-1.2%	-0.1%	-4.3%	1.6%	-2.2%	-3.0%	5.3%
Construction	7.4%	0.9%	0.5%	2.5%	3.8%	3.4%	3.3%	0.2%	0.9%	1.2%
Wholesale and retail trade; hotels and restaurants	-2.5%	3.5%	4.5%	3.6%	3.0%	2.7%	1.7%	1.5%	1.9%	3.2%
Transport and communication	0.6%	2.0%	3.1%	2.3%	2.5%	2.2%	1.1%	1.9%	2.2%	1.6%
Finance, real estate and business services	0.9%	2.0%	4.0%	3.3%	4.1%	2.1%	1.8%	2.9%	3.3%	3.5%
General government services	4.1%	2.7%	3.9%	3.1%	2.3%	2.5%	2.7%	2.6%	1.9%	0.3%
Total value added at basic prices	-1.5%	2.9%	3.3%	2.4%	2.6%	3.2%	1.1%	2.2%	0.8%	3.2%
Taxes less subsidies on products	-2.9%	3.0%	4.9%	3.8%	4.3%	5.2%	2.5%	1.9%	1.5%	1.3%
GDP at market prices	-1.7%	2.9%	3.5%	2.5%	2.7%	3.4%	1.2%	2.1%	0.9%	3.0%

Source Statistics South Africa

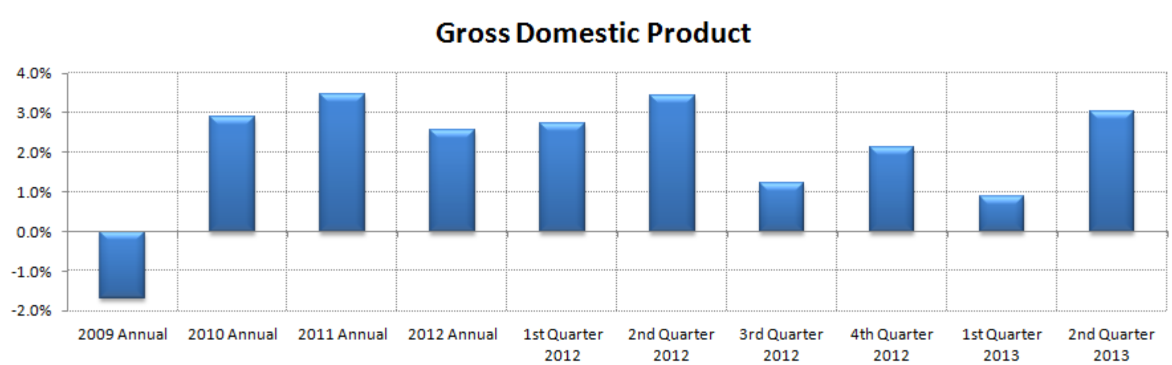


Figure 1: GDP

Table 3: South Africa Macro economic projections

	Actual	*Forecast*

% Annual Change	2010	2011	2012	2013	2014
Real GDP	2.90	3.10	2.5%	2.2%	3.3%
Gross Fixed Capital Formation	-3.70	3.50	6.4	4.7%	6.4%
R/$ Exchange rate	6.91	7.30	8.61	10.0	10.3
Headline CPI	4.30	5.20	5.70	6.0	5.9
Production Price Index	6.00	7.50	6.00	7.00	6.0
Interest Rate (Prime avg.)	9.90	9.06	9.0	8.0	9.0
Oil Price ($ per barrel)	79.00	108.60	111.0	110.0	115.0

Gross fixed capital formation

The annual growth in fixed capital formation slowed to 3,8 percent in the 2nd quarter of 2013 from 4,4 percent in Q1, but managed to maintain a relatively stable contribution to GDP of 20,5 percent. The economy expanded by 3,0 percent in the 2nd quarter of 2013 on the back of an improved manufacturing sector. Latest data suggest further expansion in manufacturing, up 5% during the month of July, but analysts have warned that the current strike action may reverse the improved performance again in August.

Table 4: Gross Fixed Capital Formation (Residential, Non-residential and Construction Works, Rm)

	Residential		*Non-res*		*Total building*		*Construction works*		*Total (Building + Construction Works*	
	Current prices	2005 prices[1]	Current prices	2005 Prices	Current prices	2005 Prices	Current prices	2005 Prices	Current prices	2005 Prices
Mar-09	10987	30595	14392	37966	25379	68561	40795	108133	66174	176694
Jun-09	11506	30273	13810	36957	25316	67230	39554	106855	64870	174085
Sep-09	11611	29867	13278	37311	24889	67178	39817	108807	64706	175985
Dec-09	11288	29397	14435	37526	25723	66923	41429	109389	67152	176312
Mar-10	10234	27731	14160	36058	24394	63789	41015	106872	65409	170661
Jun-10	10371	26381	13792	35633	24163	62014	38873	102844	63036	164858
Sep-10	10197	25144	13460	35761	23657	60905	38687	102023	62344	162928
Dec-10	9860	24732	13792	35168	23652	59900	39661	102233	63313	162133
Mar-11	9255	24230	14931	36783	24186	61013	41451	103988	65637	165001
Jun-11	9921	24119	14685	36183	24606	60302	41055	105193	65661	165495
Sep-11	10305	23964	14620	36296	24925	60260	42654	105659	67579	165919
Dec-11	10176	23999	15499	36498	25675	60497	44656	106344	70331	166841
Mar-12	10043	24655	16426	37754	26469	62409	45393	107234	71862	169643
Jun-12	10848	24886	16256	37367	27104	62253	45520	109041	72624	171294
Sep-12	11332	25083	15769	36507	27101	61590	46585	110281	73686	171871

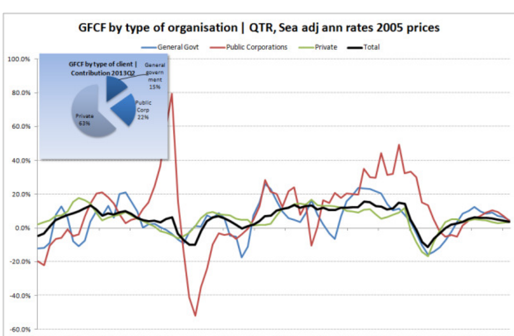
[1] Seasonally adjusted annualised rates

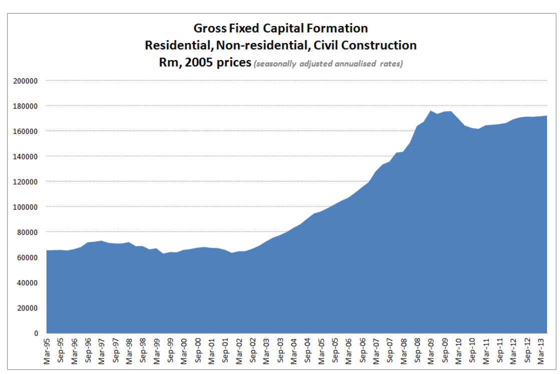
Dec-12	11080	24720	16478	36648	27558	61368	48274	110404	75832	171772
Mar-13	10650	24676	17533	37100	28183	61776	48441	110444	76624	172220
Jun-13	11511	24736	17261	37569	28772	62305	48332	110453	77104	172758

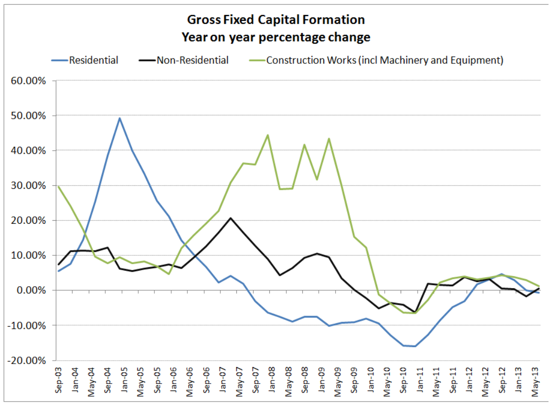
Source: SARB Quarterly Bulletin

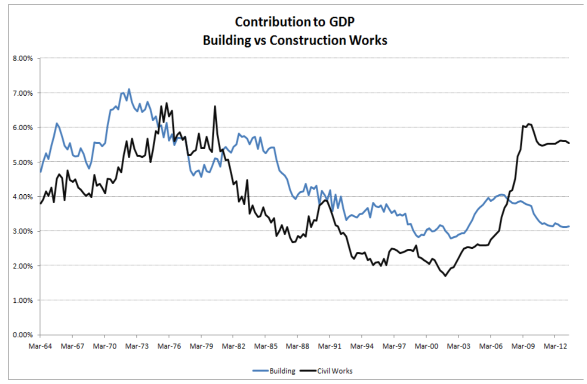
Table 5: Gross Fixed Capital Formation (Residential, Non-residential and Construction Works) Y-Y Real Percentage Change

Y-o-Y Percentage Change	*Residential*	*Non-Residential*	*Building*	*Civil Works*	*Total Construction*	*Gross fixed capital formation*
Mar-09	-10.1%	9.6%	-0.1%	43.5%	22.7%	5.0%
Jun-09	-9.2%	3.6%	-2.6%	29.9%	15.1%	-1.4%
Sep-09	-9.1%	0.2%	-4.2%	15.4%	7.0%	-8.4%
Dec-09	-8.1%	-2.3%	-4.9%	12.2%	5.0%	-11.4%
Mar-10	-9.4%	-5.0%	-7.0%	-1.2%	-3.4%	-6.5%
Jun-10	-12.9%	-3.6%	-7.8%	-3.8%	-5.3%	-3.2%
Sep-10	-15.8%	-4.2%	-9.3%	-6.2%	-7.4%	0.0%
Dec-10	-15.9%	-6.3%	-10.5%	-6.5%	-8.0%	2.0%
Mar-11	-12.6%	2.0%	-4.4%	-2.7%	-3.3%	2.6%
Jun-11	-8.6%	1.5%	-2.8%	2.3%	0.4%	3.8%
Sep-11	-4.7%	1.5%	-1.1%	3.6%	1.8%	5.3%
Dec-11	-3.0%	3.8%	1.0%	4.0%	2.9%	6.3%
Mar-12	1.8%	2.6%	2.3%	3.1%	2.8%	6.0%
Jun-12	3.2%	3.3%	3.2%	0.0%	3.5%	6.0%
Sep-12	4.7%	0.6%	2.2%	4.4%	3.6%	5.7%
Dec-12	3.0%	0.4%	1.4%	3.8%	3.0%	5.0%
Mar-13	0.1%	-1.7%	-1.0%	3.0%	1.5%	4.4%
Jun-13	-0.6%	0.5%	0.1%	1.3%	0.9%	3.8%









Business confidence has slowly starting showing some signs of a recovery, albeit still not at a level considered as "sufficiently supportive" to encourage higher levels of investment, particularly within the private sector. The index crept higher to a level of 52.0 in the 1st quarter of 2013 from 46.0 in the 4th quarter of 2012, but fell back to a level of 48 and 42 by the 2nd and 3rd quarters of 2013. Sentiment within the business sector has not been at a level that is considered optimistic for the past 6 years (In the 4th quarter of 2007 it dropped from a level of 72.0 to 67,0 and has been below the level of 55 ever since, falling to levels as low as 23 in 3rd quarter 2009). Business confidence in the 3rd quarter was primarily influenced by the resurgence of strike action affecting sectors such as mining and construction.

Against the backdrop of (at best) a modest recovery in the global economy, tight fiscal conditions domestically, worsened by structural challenges hampering delivery, and further more threatened by potentially higher price risks, the civil engineering industry remains in a vulnerable position. This is despite the desperate need for higher levels of infrastructure development in emerging economies. Much of the official data is masked with trends that do not directly affect the local construction industry. It is therefore important for the industry to survey its members to get a better understanding of the dynamics affecting the industry at grass root level.

THE POSITION OF THE CIVIL ENGINEERING INDUSTRY

Sample profile

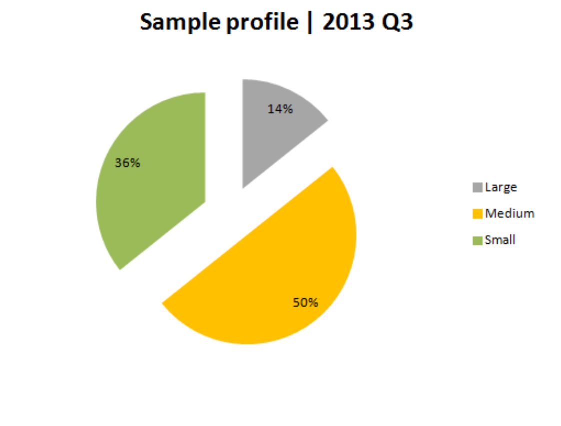


Figure 2: Sample profile 2013 Q3

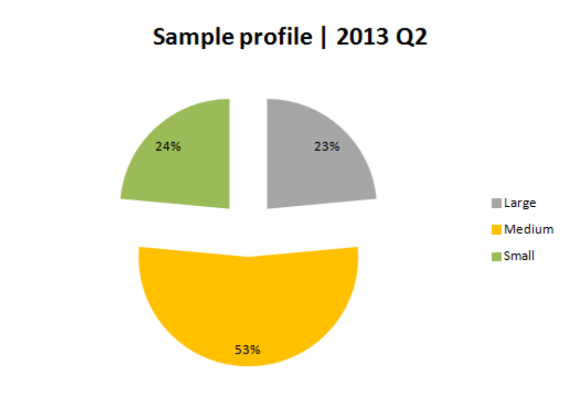


Figure 3: Sample profile 2013 Q2

- SAFCEC reviewed and redesigned the questionnaire which was distributed to all SAFCEC members during March and April 2013. The development of a supporting on-line data capturing tool is currently in progress.
- It is important to increase the usability of the industry report for all SAFCEC members, including small, medium and large enterprises. For this reason more focus will be given to the developing trends within the defined employment categories. The categories are as follows:
  - Small : Employing less than 100 people
  - Medium: Employing between 100 and 1000 people
  - Large: Employing more than 1000 people
- Responses are weighted according to employment only where applicable. Comparisons between the different firm size categories are not weighted as responses between the firm sizes have already been categorised.

Financial Statistics

- Contradicting the previous report, majority of firms reported improved performance in turnover during the 2nd quarter of 2013 compared to the 1st quarter, up on average by 40 percent.
- The nominal value of salary and wages increased by 19,0 percent during the same period, compared to an increase of 6,5 percent in the 1st quarter and 17,9 percent during the 4th quarter of 2012. Wages are normally adjusted in the first quarter of the year.
- On average 23 percent of turnover was spent on salary and wages, compared to over 30 percent in the previous report.
- Majority of firms reported a further increase in the value of late payments, up 52 percent during the 2nd quarter of 2013 compared to the previous quarter. The nominal value of late payments for civil works already completed and invoiced increased by an average of 40 percent in the previous quarter.

Table 6: Value of Civil Engineering construction certified for payment (Nominal prices, not adjusted for inflation)

2nd QTR 2013 vs 1st QTR 2013	*Percentage Change Q-Q Prev Qtr*	*Percentage Change Q-Q Current Qtr*	*% contribution to survey, based on turnover*	*% contribution to survey, based on returns*
Large	-11.9%	39.0%	67.9%	14.3%
Medium	-21.7%	53.3%	29.7%	50.0%
Small	-48.0%	15.9%	2.4%	35.7%
Total	-13.9%	40.0%	100.0%	100.0%

Nominal turnover recovered for the first time in three quarters, during the 2nd quarter, up 40,0 percent compared to the 14,0 percent contraction reported in the 1st quarter. In real terms (adjusted for inflation), and compared to the same quarter in 2012, turnover was however still lower by 1,8 percent. Comparing the first two quarters of 2013 with the first half of 2012, turnover was 19,0 percent lower (in real terms), to an estimated R19 billion (current prices). The industry has contracted by nearly R3bn (current prices) in the first six months of 2013. Strike action which resulted in several large projects being halted during August and September, should have a negative effect on turnover and profitability during the 3rd quarter of 2013. Fortunately a wage agreement was reached by SAFCEC and relevant unions by mid September 2013.

Table 7: Salary and wage bill

2nd QTR 2013 vs 1st QTR 2013	*Percentage Change Q-Q Prev Qtr*	*Percentage Change Q-Q Current QTR*	*% contribution to survey, based on turnover*	*% of turnover*
Large	13.5%	23.7%	76.3%	26.1%
Medium	-9.0%	-6,7%%	22.6%	17.6%
Small	-19.1%	12.3%	1.1%	10.9%
Total	6.5%	19.0%	100.0%	23.2%

The salary and wage bill contributed 23,2 percent of turnover, and increased by an average of 19 percent since the 1st quarter. The annual growth slowed from around 15% due to the payments of bonuses during the holiday season. The salary and wage bill increased by an average of 23,7 percent in large firms (compared to an increase of 13,5 percent in Q1) and 12,3 percent for smaller firms, but contracted by 6,7 percent for medium size firms. The contribution of salary and wages to turnover differ for medium and smaller firms averaging 17,6 percent and 10,9 percent respectively. SAFCEC and NUM signed a two year wage agreement in September 2013, ending the prolonged strike action in the construction industry. The wage agreement allows for a wage increase of 10% for employees in Task grade 1 to 4, and a 9 percent increase for employees in Task Grade 5 to 9. An interim wage adjustment, effective from 1 March 2014, of between 1,45 percent and 2,14 percent will also be granted to employees in Task Grade 1 to 4.

Table 8: Nominal value of forward order book: Q-Q Change

	Percentage Change Q-Q Prev Qtr	*Percentage Change Q-Q Current Qtr*	*Contribution to order book*
Large	54%	15.6%	50%
Medium	55%	16.8%	50%
Small	-	-	-
Total	54%	15.9%	100.0%

The nominal value of order books further improved in the 2nd quarter, up 15,9 percent, following the 54 percent improvement reported in the previous quarter. Data provided by smaller firms was limited and not viable for comparative purposes. Smaller firms are less sensitive to order books, as tendering and adjudication are much quicker on smaller scale projects. It is however an important indicator for larger firms, and when spread over 4 quarters assuming projects on average will take 12 months to complete, conditions look more optimistic for larger firms. However, any "forward looking" commentary is subject to the challenge of clients following through once projects have been awarded.

Some of the recent financial statements released included WBHO, Aveng, Basil Read and Murray & Roberts where majority of companies reported a positive outlook in terms of their respective order books and the outlook on business performance in the 2014 financial period.

Table 9: Value of late payments vs value of work certified for payment and invoiced

	Percentage Change Q-Q	*% of Turnover Previous quarter*	*% of Turnover Current quarter*
Large	54%	7.5%	16.4%
Medium	45%	28.9%	10.0%
Small	-20%	11.0%	4.3%
Total	52%	9.0%	14.2%

The total nominal value of late payments for civil works already completed and invoiced increased by 52 percent during the 2nd quarter of 2013, following a similar rate of increase reported during the previous survey (up 46 percent). Late payments has affected the financial performance of major players in the industry putting further pressure on already lower margins. An increase in the value of late payments were reported by all participating larger firms, while most of the medium size firms reported deterioration in payments, up 45 percent. Smaller firms however reported a nett improvement.

The exact contribution of late payments to turnover is unclear, ranging from 10 percent to 20 percent, and differs greatly from firm to firm. In the current survey, late payments represented 14,2 percent of turnover, compared to an average of 9 percent in the previous survey and 5 percent in the 4th quarter of 2012. Thus irrespective of the exact contribution there is a tendency for late payments to increase as a percentage of turnover.

Industry Profile

The following section provides a snapshot view of turnover earned by project type, client and province during the 2nd quarter of 2013.

Table 10: Turnover distribution by sub-discipline

Discipline	*Large*	*Medium*	*Small*	*Total 2013Q2*	*Total 2013Q1*
Roads	36.5%	42.9%	81.6%	39.5%	37.1%
Earthworks	11.0%	6.4%	0.9%	9.4%	5.7%
Water Bulk Infrastructure	1.5%	21.8%	11.8%	7.8%	10.4%
Water and Sanitation	5.0%	0.8%	3.0%	3.7%	5.2%
Rail	0.0%	3.5%	0.0%	1.0%	0.1%
Harbours	6.0%	0.0%	0.8%	4.1%	4.7%
Power (bulk)	10.5%	10.5%	0.0%	10.2%	9.4%
Power (services)	0.0%	0.0%	0.0%	0.0%	0.0%
Airports	2.0%	11.2%	0.8%	4.7%	5.2%
Mining Infrastructure	13.5%	0.6%	0.0%	9.3%	1.5%
Mining (Surface earthworks)	7.5%	0.0%	0.0%	5.1%	15.3%
Other	6.5%	2.3%	1.2%	5.1%	5.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Table above provides a snapshot view of the involvement of the different size firm categories by sub-disciplines. Larger firms are more active in road works, bulk power services, and mining surface earthworks, while medium firms are involved in roads, bulk water infrastructure and water and sanitation projects. Smaller firms earn a higher percentage of turnover from water bulk infrastructure and water and sanitation.

Table 11: Turnover distribution by client

	Large	*Medium*	*Small*	*Total 2013Q2*	*Total 2013Q1*
Central	4.0%	5.3%	0.0%	4.3%	13.5%
Provincial	6.5%	3.2%	4.2%	5.5%	1.8%
Local	3.0%	11.4%	86.3%	7.5%	8.0%
Corporations	17.0%	54.0%	1.6%	27.6%	40.2%
Private	69.5%	26.0%	7.9%	55.1%	36.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The private sector played a larger role in the 2nd quarter survey, contributing 55,1 percent of turnover, compared to 36,6 percent in the 1st quarter, due to the contribution of the mining sector and renewable energy projects that are starting to gain momentum. The role of central government and Corporations moderated to 4,3 percent and 27,6 percent (from 13,5 percent and 40,2 percent), while the contribution by the Provincial government increased to 5,5 percent. It must be noted that some of the clients may also include cross border activities for larger and some of the medium size firms, as well as clients in the mining sector. Larger firms are currently earning a higher portion of turnover from corporations while medium size firms were most active in Corporations. Medium and smaller size contractors have a much higher reliance on local government.

Table 12: Geographic Distribution of the value of civil engineering construction work (turnover) vs the value of contracts awarded

Province	*Large*	*Medium*	*Small*	*Total*	*Domestic Contract Awards as per project database (not member survey) 2nd QTR 2013*	*Domestic Contract Awards as per project database (not member survey) (MAT, nominal)[2]*
GAU	9%	5%	0%	8%	22%	18%
WC	5%	15%	78%	10%	14%	11%
EC	1%	14%	9%	5%	13%	13%
NC	4%	6%	0%	4%	5%	6%
MPU	47%	19%	0%	37%	14%	12%
FS	6%	11%	0%	7%	4%	7%
LIM	11%	26%	0%	15%	5%	4%
NW	9%	0%	0%	6%	10%	8%
KZN	8%	4%	13%	7%	13%	20%
Total	100%	100%	100%	100%	100%	100%

[2] Source Industry Insight Project time-series database, derived from Databuild project lead information research. Excluding mining sector

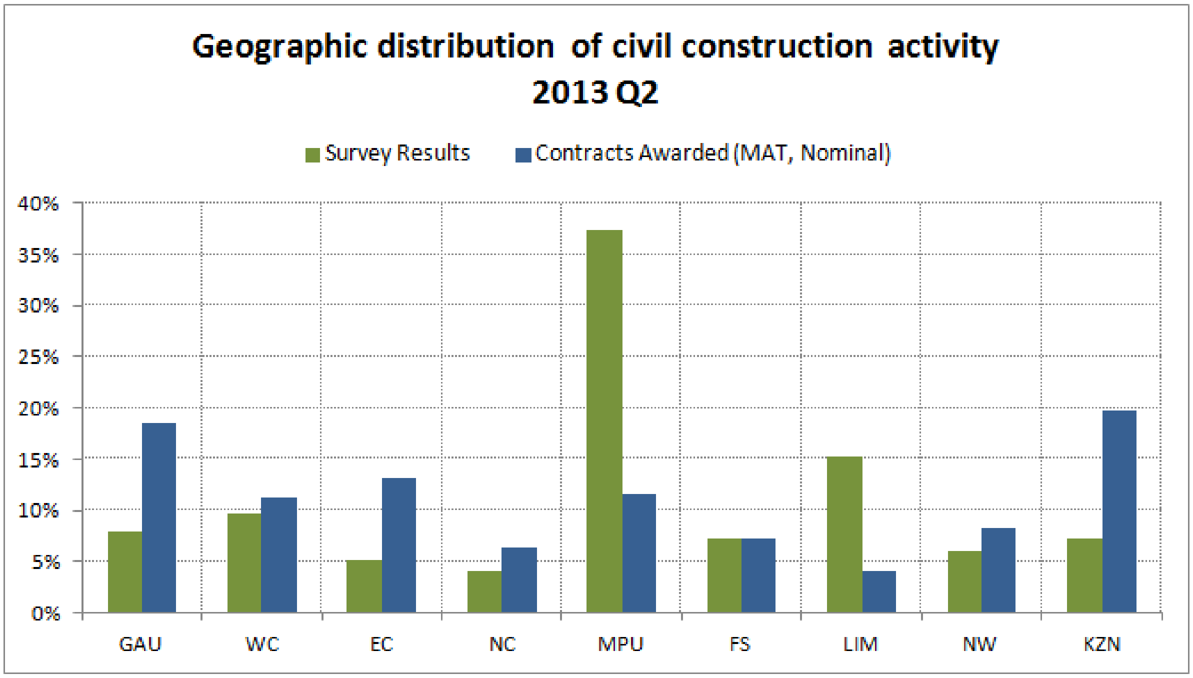


Figure 4: Geographic distribution of civil construction activity 2013 Q2

Larger firms were more active in areas such as Mpumalanga, Gauteng, and North West, linked to the mining and power sectors, while medium size firms were more active in the Eastern Cape, Western Cape, and Gauteng. As we hope the sample of respondents will increase a clearer perspective on provincial trends will be available. In the meanwhile a comparison between survey results and an independent database of domestic civil contracts awarded over the last four quarter, is included, Please note that the project database unfortunately excludes infrastructure related to mining developments, an important discipline to the larger construction firms. Nonetheless it provides a yardstick for comparative purposes, with projects worth R10,8 bn awarded during 2013Q2, compared to R11,9bn in the 1st quarter. Gauteng had the lions share in terms of the value of domestic civil projects awarded during the 2nd quarter of 2013, (22 percent, up from an average of 12,7 percent in the last six months of 2012), followed by 14,3 percent in the Western Cape and 13 percent for Eastern Cape, Kwazulu Natal and Mpumalanga. Interesting to note the slowdown in terms of the contribution by Kwazulu Natal from an average of 21 percent in the last six months of 2012 to 13 percent in the 2nd quarter of 2013. Provinces that reported an increase in market share during the 2nd quarter include Eastern Cape, North West province, and Western Cape.

Table 13: Value of civil contracts awarded, by province and project type: 2013 Q2

Province	*Air*	*Bridges*	*Civil Other*	*Power*	*Rail*	*Road*	*Water*	*Total*
Eastern Cape	35	17	57	12		315	996	1,432
Free State			24	56		117	217	413
Gauteng		24	203	93	7	755	1,320	2,401
Kwazulu Natal	10	39	57	43		663	638	1,449
Limpopo			45	3		252	198	498
Mpumalanga		6	15	21		1,238	198	1,477
North West Province	13	14	4			1,028	68	1,127
Northern Cape			62	27		382	70	540
Western Cape		1	118	180	77	870	314	1,558
Total	58	99	583	435	84	5,620	4,019	10,897

Table 14: Provincial distribution of civil contracts awarded, by value, by quarter

	2012 Q1	*2012 Q2*	*2012 Q3*	*2012 Q4*	*2013Q1*	*2013Q2*	*2012*	*2011*
EC	8%	10%	12%	20%	9%	13%	13%	13%
FS	9%	3%	10%	9%	8%	4%	7%	4%
GAU	21%	13%	15%	11%	23%	22%	14%	13%
KZN	13%	18%	19%	23%	23%	13%	18%	18%
LIM	5%	18%	4%	5%	3%	5%	9%	15%
MPU	22%	14%	9%	8%	14%	14%	13%	14%
NW	2%	2%	11%	9%	5%	10%	6%	4%
NC	3%	9%	11%	7%	4%	5%	8%	6%
WC	17%	12%	10%	9%	11%	14%	12%	12%
TOTAL	100%	100%	100%	100%	100%	100%	100%	13%
Rm (Nominal)	R6.9bn	R10.5bn	R7.4bn	R8.8bn	R11.9n	R11.9n	R33bn	R36bn

Source Industry Insight time-series project database

Table 15: Value (nominal) of civil contracts awarded: Q-Q change (same qtr previous year)

	2012 Q1	*2012 Q2*	*2012 Q3*	*2012 Q4*	*2013 Q1*	*2013 Q2*	*2012 vs 2011*	2011 vs 2010
EC	-60%	-24%	-3%	77%	85%	35%	-9%	51%
FS	3%	31%	28%	545%	40%	17%	56%	-20%
GAU	23%	18%	-29%	38%	9%	77%	6%	2%
KZN	-30%	86%	-18%	-20%	202%[3]	-25%	-5%	90%
LIM	-75%	30%	-82%	-56%	8%	-74%	-45%	58%
MPU	29%	7%	-60%	10%	12%	-3%	-11%	111%
NW	-74%	-18%	193%	102%	420%	445%	43%	73%
NC	-68%	71%	-4%	154%	155%	-44%	15%	28%
WC	-10%	192%	-52%	-38%	9%	21%	-12%	57%
TOTAL	-26%	32%	-31%	13%	72%	3%	-6%	48%

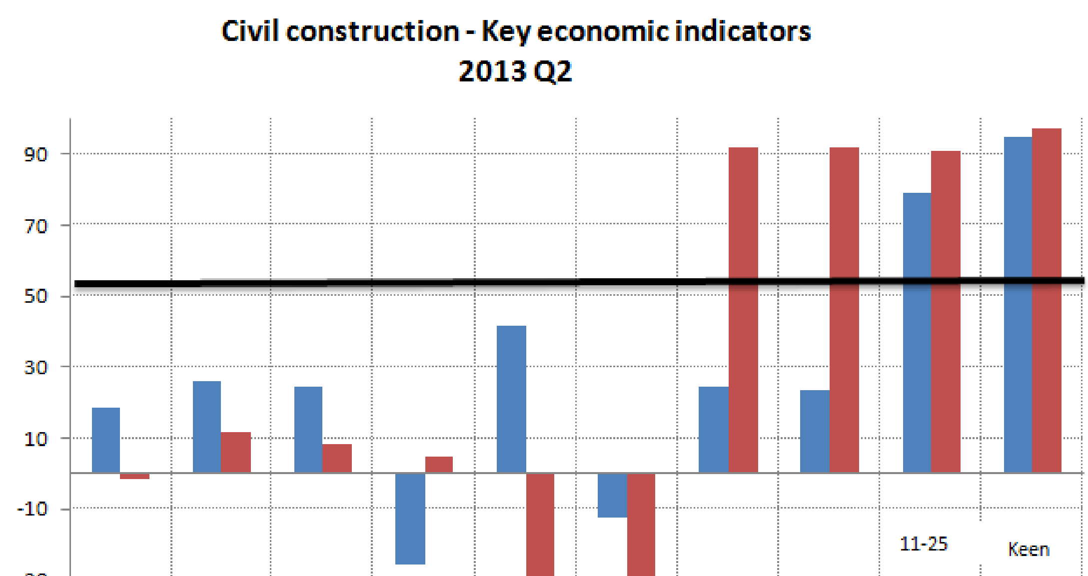
Table 12 provides some indication of what can be expected in the next 6 months based on contracts awarded during the last few quarters. The value of contracts awarded fell by 6% in nominal terms during 2012, following an increase of 48% during 2011. The more encouraging increase in 2011 spilled over into higher levels of activity during 2012, but this has started to slowdown during the last quarter of 2012, as seen by responses from members. The value of contracts awarded increased by 72 percent during the 1st quarter of 2013, but slowed to a growth of 3 percent in the 2nd quarter. In real terms, allowing for a 6 to 7 percent in construction costs, this means negative growth in the region of 4 to 5 percent.

Smoothed over a running annual total (4 quarters), the real value of civil awards (adjusted for inflation) moderated to an annual growth rate of 1,9 percent by the 2nd quarter of 2013 from 8,9 percent in the four quarters to 2013Q1. Pending the impact of strike action in the construction sector during September, the value of awards are likely to show further improvement during the 3rd quarter of 2013, based on an increase in values reported during the months of July and August. A delay in project implementation must however be considered as the construction industry came to halt over this period.

Economic Indicators

[3] Award of R800m road contract to upgrade the National Route 2 section 26.

- Economic indicators weakened further in the second quarter of 2013
- The nett % satisfied with working conditions during the 2nd quarter, fell to -1.3 percent, from 18,5 percent in the previous survey, improving slightly to 11.6 percent for the 3rd quarter, before falling again to 8.5 percent for the 4th quarter. A negative rate imply more firms are negative, expecting difficult working conditions, while a higher positive rate implies a growing number of firms are more optimistic.
- Opinions related to profitability improved, although profit margins remained under pressure there is a tendency by the industry to "accept" the lower margin environment as a normalisation following the extraordinary margins achieved in the build up to the 2010 Soccer World Cup
- Competition for tenders intensified, while an increasing number of firms reporting keener tender prices
- There was an improvement in the opinions expressed related to order books and turnover, as revenue generally started to show more acceptable growth and order books have shown more positive improvement, accept for the mining industry, where conditions remain uncertain.



	Past QTR	Current QTR	Next QTR	Profitability	Tender activity	Awards	Order books	Turnover	Competition:	Tender prices
2013Q1	18.5	25.8	24.4	-25.4	41.7	-12.1	24.3	23.7	79	95
2013Q2	-1.3	11.6	8.5	4.8	-86.2	-80.5	91.9	91.6	91	97

Figure 5: Key economic indicators Summary

Tempo of civil engineering work

The indicators below reflect actual figures compiled for the period ending June 2013, depicting conditions in the 2nd quarter 2013 and an outlook for the 3rd quarter in 2013.

Table 16: Tempo of civil engineering work: PREVIOUS QUARTER (January – March 2013)

	Large	*Medium*	*Small*	*Industry weighted avg*
Very Quiet	0.0%	0.0%	20.0%	0%
Quiet	50.0%	50.0%	0.0%	51%
Satisfactory	50.0%	33.3%	60.0%	48%
Quite Busy	0.0%	0.0%	0.0%	0%
Very busy	0.0%	16.7%	20.0%	2%
Total	100.0%	100.0%	100.0%	100.0%
% Satisfied	50.0%	50.0%	80.0%	49.4%
Nett % satisfied	0.0%	0.0%	60.0%	-1.3%

Table 17: Tempo of civil engineering work: CURRENT QUARTER (April – June 2013)

	Large	*Medium*	*Small*	*Industry weighted avg*
Very Quiet	0.0%	0.0%	40.0%	0%
Quiet	50.0%	28.6%	0.0%	44%
Satisfactory	50.0%	14.3%	20.0%	48%
Quite Busy	0.0%	42.9%	20.0%	6%
Very busy	0.0%	14.3%	20.0%	2%
Total	100.0%	100.0%	100.0%	100.0%
% Satisfied	50.0%	71.4%	60.0%	55.8%
Nett % satisfied	0.0%	42.9%	20.0%	11.6%

Table 18: Tempo of civil engineering work: NEXT QUARTER (July – September 2013)

	Large	*Medium*	*Small*	*Industry weighted avg*
Very Quiet	0.0%	0.0%	20.0%	0%
Quiet	50.0%	33.3%	0.0%	46%
Satisfactory	50.0%	0.0%	60.0%	48%
Quite Busy	0.0%	50.0%	20.0%	6%
Very busy	0.0%	16.7%	0.0%	1%
Total	100.0%	100.0%	100.0%	100.0%
% Satisfied	50.0%	66.7%	80.0%	54.9%
Nett % satisfied	0.0%	33.3%	60.0%	8.5%

Larger firms were not as busy and therefore not as satisfied with working conditions in the fourth quarter, and this seems to be the sentiment going forward. Medium size firms experienced a busier 4th quarter and were also slightly more optimistic about working conditions in the 1st quarter, hoping to extent the higher level of optimism into the 2nd quarter of 2013. The (weighted) response rate therefore (i.e satisfaction rate), moderated from 87,4% in the previous survey (expected for the 1st quarter of 2013) to 62,9 percent and 62,2 percent expected for the 2nd quarter 2013, depicting potential further weakening in the industry. This does come as a surprise, considering the healthy uptick in order books, but can be associated with the uncertainty in the industry, that could delay the implementation of projects. Issues around the uncertainty of mining developments, imminent strikes, and poor roll out of government projects are all affecting the sentiment in the industry.

Competition for tenders

Table 19: Competition for tenders current quarter (April – June 2013)

	Large	*Medium*	*Small*	*Industry weighted avg Prev QTR*	*Industry weighted avg Current QTR*
Up to 5	0.0%	20.0%	20.0%	3.3%	0.7%
5 – 10	0.0%	60.0%	20.0%	17.4%	8.0%
11 – 25	50.0%	20.0%	60.0%	75.8%	49.9%
> 25	50.0%	0.0%	0.0%	3.5%	41.4%
Total	100.00%	100.00%	100.00%	100.0%	100.0%

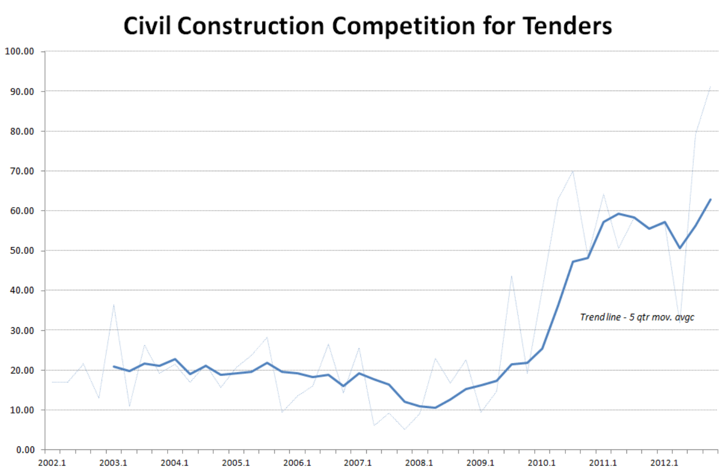


Figure 6: Competition for tenders

97 percent of firms (weighted) reported keen tender prices, from an average of 96 percent in the 1st quarter of 2013. Medium to small size firms experience higher levels of competition, compared to the larger firms, with between 16% and 41,4 percent of firms reported competition in excess of 25 tenders in the 2nd quarter of 2013.

Table 20: Tender prices in the current quarter (April – June 2013)

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
Very Low	0.0%	20.0%	20.0%	2.9%	3%
Keen	100.0%	60.0%	80.0%	96.0%	97%
Reasonable	0.0%	20.0%	0.0%	1.1%	1%
Good	0.0%	0.0%	0.0%	0.0%	0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%

Profitability

Table 21: Profitability

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
Very Low	0.0%	0.0%	20.0%	0.4%	0.0%
Low	50.0%	33.3%	40.0%	62.3%	47.6%
Satisfactory	50.0%	66.7%	40.0%	37.3%	52.4%
High	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Nett % satisfied	0.0%	33.3%	-20.0%	-25.4%	4.8%

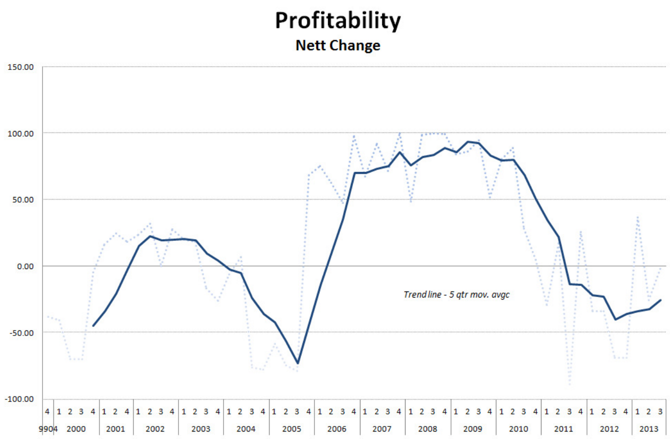


Figure 7: Profitability

There was only a mild improvement in the nett satisfaction rate related to profitability, to a positive 4,8 percent from -25.4 in the previous survey. Margins are returning to "normal" levels, and the industry has started to adjust to margins of between 3 and 5 percent. Margins are improving on projects going forward as noted in various financial statements recently released, but profitability is under pressure due to rising costs and higher wage increases.

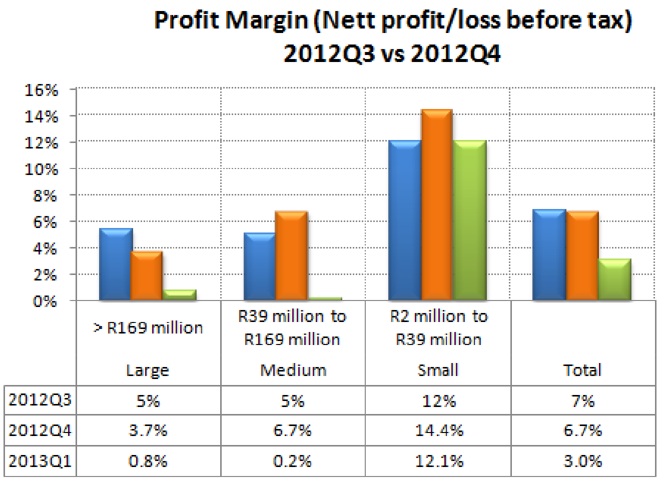


Figure 8: Profit Margin (Source Statistics South Africa, P0044

According to Stats SA nett profit before tax as a percentage of turnover fell from 7,0 percent in 2012Q3 to an average of 3,0 percent in 2013Q1, supporting the more depressed outlook on profitability in the industry. Margins for larger firms (with a turnover of >R169 million according to Stats SA classification) fell sharply from an average of 5,0 percent to 0,8 percent, alongside a deterioration also reported in medium size firms to 0,2 percent. Smaller firms managed to maintain double digit margins, but also reported a lower 12,1 percent from 14,4 percent in the 4th quarter of 2012.

Table 22: Total income

	Construction industry			
	Large	Medium	Small	Total
	> R182 million	R42 million to R182 million	R2 million to R42 million	
Jun-12	42,625	14,837	11,459	68,921
Sep-12	39,678	16,683	15,053	71,414
Dec-12	38,847	14,520	14,733	68,100
Mar-13	34,782	15,520	13,046	63,348

Table 23: Market Share

Construction industry			
Large	Medium	Small	Total
> R182 million	R42 million to R182 million	R2 million to R42 million	
61.8%	21.5%	16.6%	100.0%
55.6%	23.4%	21.1%	100.0%
57.0%	21.3%	21.6%	100.0%
54.9%	24.5%	20.6%	100.0%

Table 24: Quarter on Quarter percentage change

	Construction industry			
	Large	Medium	Small	Total
	> R182 million	R42 million to R182 million	R2 million to R42 million	
Jun-12	-6.9%	12.4%	31.4%	3.6%
Sep-12	-2.1%	-13.0%	-2.1%	-4.6%
Dec-12	-10.5%	6.9%	-11.5%	-7.0%

The contribution by larger firms to total revenue generated in the construction industry moderated to 54,9 percent in the 1st quarter of 2013, from over 60 percent in the 2nd quarter of 2012

Source: Statistics South Africa

Please note that the financial statistics published by Stats SA include building and civil construction activity. (Source Statistical Release P0044).

Opinions related to tenders, awards, order books and turnover

Tender activity

Table 25: Opinion of volume of tender invitations (April - June 2013)

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
Nil	0.0%	0.0%	0.0%	0.0%	0.0%
Low	100.0%	42.9%	60.0%	29.1%	93.1%
Satisfactory	0.0%	57.1%	40.0%	70.9%	6.9%
Good	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Nett % satisfied	-100.0%	14.3%	-20.0%	41.7%	-86.2%

Majority of firms reported their dissatisfaction with tender volumes. All the larger firms and 60% of the smaller firms reported low volumes, while majority of the medium size firms (57,1 percent) were satisfied. An analysis of the tender database supports these opinions, as the bulk of tender activity during the quarter under review fell within the CIDB categories 2 – 7. The nett percentage satisfied (weighted), dropped from 80,4 percent in 2012 Q4 to 41,7 percent in 2013Q1 to a negative -86.2 percent in the 2nd quarter.

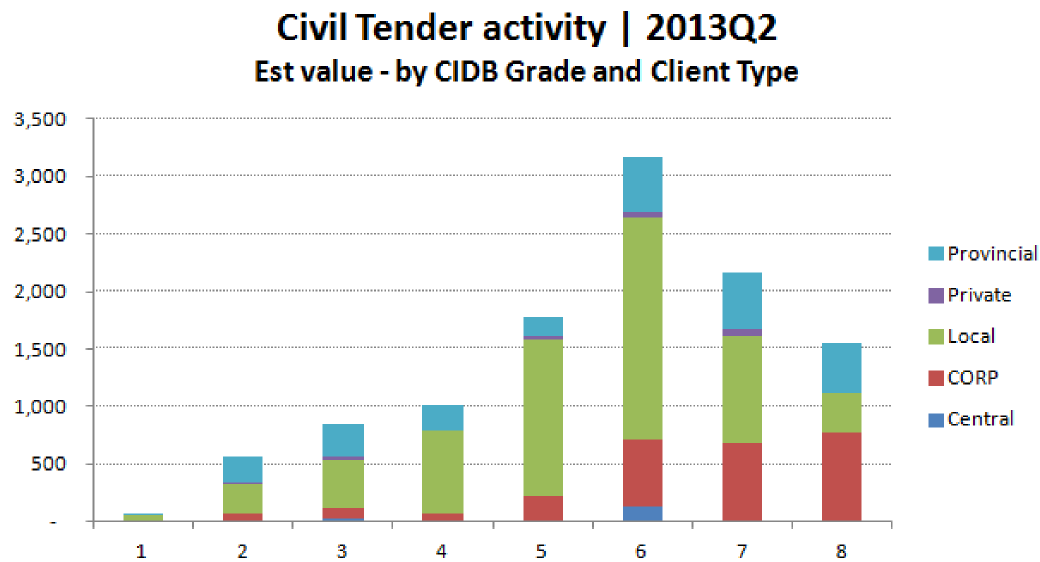


Figure 9: Civil Tender Activity 2013Q2, Est value by CIDB grade and client type

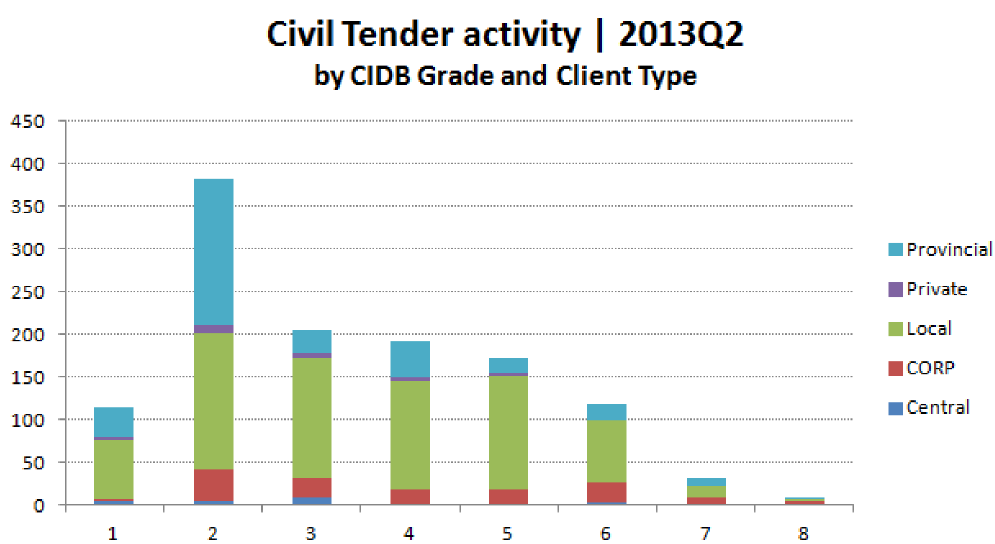
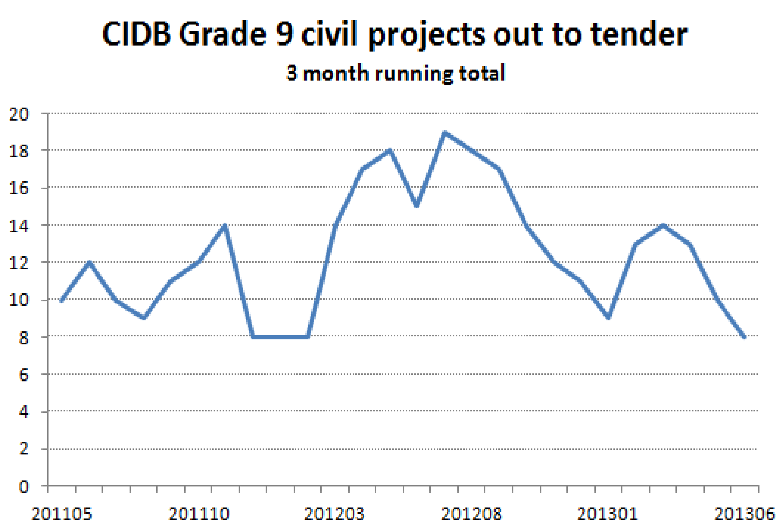


Figure 10: Civil Tender activity 2013Q2 (number) by CIDB grade and Client type

Table 26: Civil Tender activity by known CIDB grade

Year, Quarter	2	3	4	5	6	7	8	9	Total
201101	42	64	77	55	76	31	13	3	361
201102	46	176	108	81	82	72	30	12	607
201103	102	203	183	99	115	104	29	11	846
201104	100	274	192	118	157	93	31	8	973
201201	104	225	155	102	101	81	29	14	811
201202	64	235	129	87	101	119	41	15	791
201203	95	277	180	125	137	129	47	17	1007
201204	123	279	212	148	172	88	46	11	1079
201301	135	312	153	129	132	75	34	14	984
201302	119	385	208	194	175	119	32	8	1240

An analysis of the tender database shows an increase in tendering activity during the 2nd quarter of 2013, up 59 percent y-y compared to the 2nd quarter in 2012, following an increase of 22,7 percent in the 1st quarter. This follows an increase of 3,6 percent in 2012 vs 2011. Although the annual growth rate (smoothed over the last four quarters) has slowed from 24,7 percent in 2011 to 3,5 percent in 2012, the increase in tendering activity during the last two quarters should have had a more positive impact on the confidence levels of particularly medium size civil contractors, as the bulk of tenders relate to medium size value projects.



The outlook for higher value projects is less promising as tender activity for Grade 9 projects slumped in the 2nd quarter. Less than 1 percent (0,65 percent) of the tenders issued during the 2nd quarter were for CIDB Grades 9 (from 1,4 percent in the 1st quarter) and fell by 42 percent, to an estimated 8 projects, since the 1st quarter. Tender activity increased in categories 2 to 7, providing opportunities to medium and smaller size construction companies.

Tender activity is a crucial indicator, being a first warning of the potential volume of work. The confidence reflected by companies regarding this indicator is therefore crucial and often deviates from the actual physical number of tenders during a period. The rate of involvement in cross border activity of larger contractors has increased in recent quarters, to counter act the impact of the dearth in work opportunities domestically. Some larger companies recently announced that the percentage contribution of work outside of South Africa is larger than revenue generated inside the country. Because these indicators are weighted, the opinions and perceptions of larger firms impacts quite heavily on the overall trend, and the impact of "cross border" activity must not be undermined in the movement of these indices. An analysis of cross border activity was not possible in this survey, due to the absence of larger firms in the sample.

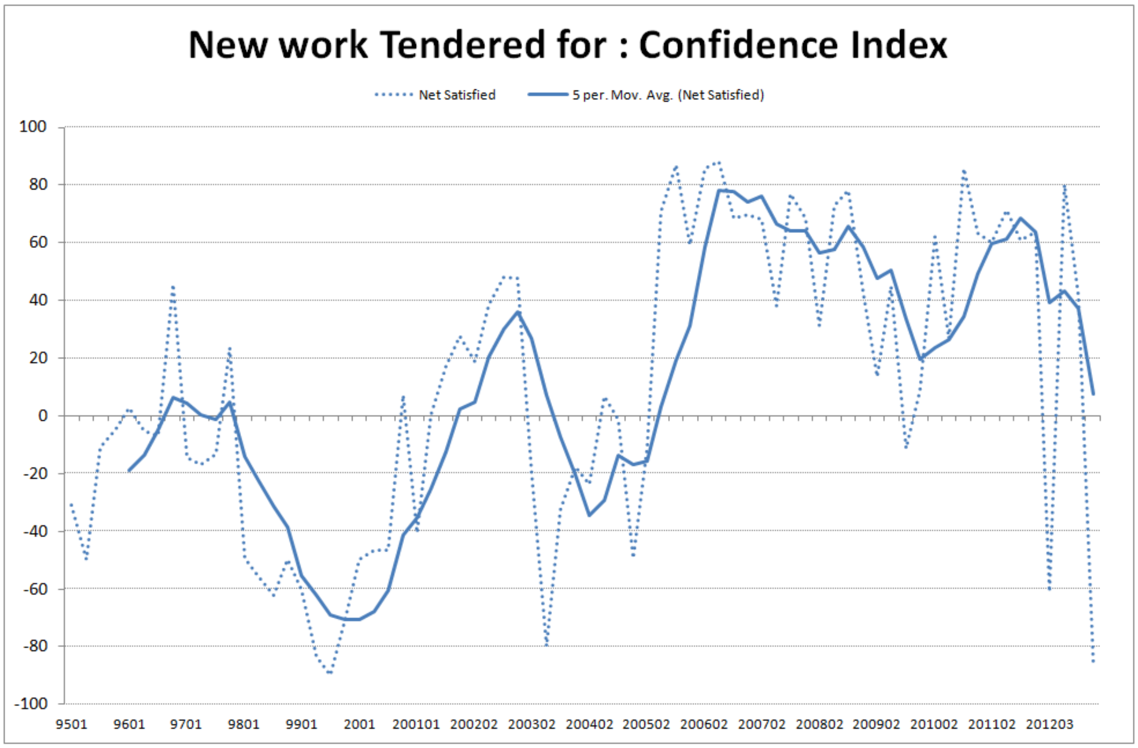
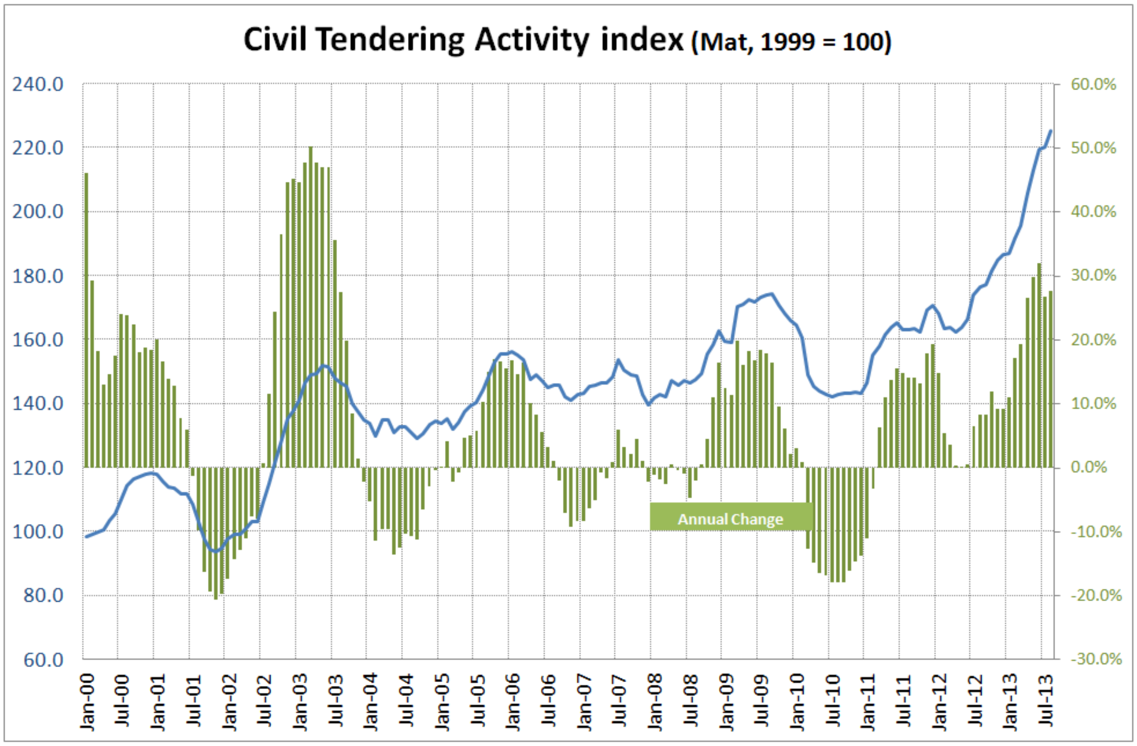


Figure 11: Opinions of new work tendered for: Confidence Index



The opinion of firms related to tender activity deteriorated in the 2nd quarter of 2013, from a nett satisfaction rate of 80 percent in 2012Q4, to 41,7 percent in 2013Q1 and -80.69 percent in Q2. An increasing number of firms reported low tender activity during the current quarter. The trend line suggests that confidence levels are not recovering as hoped in the previous survey. The fact that confidence levels are weighted, may offer some explanation to the contradicting trends, and tender activity, across all size projects, has increased and is in fact in a record high. The Civil industry tender index, smoothed over a running twelve months, is increasing at double digit rates, up 27,3 percent y-y as at 2nd Quarter 2013.

However, based on an estimated value of tenders (calculated from the average awarded price during the same period), tender values have fallen by 4 percent compared to the 2nd quarter in 2012, following a 16 percent growth in the previous quarter. The slowdown in tender values can, in part, be blamed on the fall in tenders issued for higher value (Grade 9) projects.

Table 27: Estimated civil tender values, by project type, by quarter (Rm, current prices- not adjusted for inflation)

	Air	Bridges	Civil Other	Power	Rail	Road	Water	Grand Total
2012Q1	12	206	244	610	-	4,289	4,399	9,759
2012Q2	-	87	549	404	16	4,919	6,247	12,223
2012Q3	11	194	289	765	235	6,625	5,466	13,585
2012Q4	-	197	498	778	13	6,392	3,527	11,404
2013Q1	-	125	668	548	-	6,378	3,614	11,333
2013Q2	24	107	1,023	578	184	5,153	4,658	11,726

Source: Industry Insight Project Database, Databuild

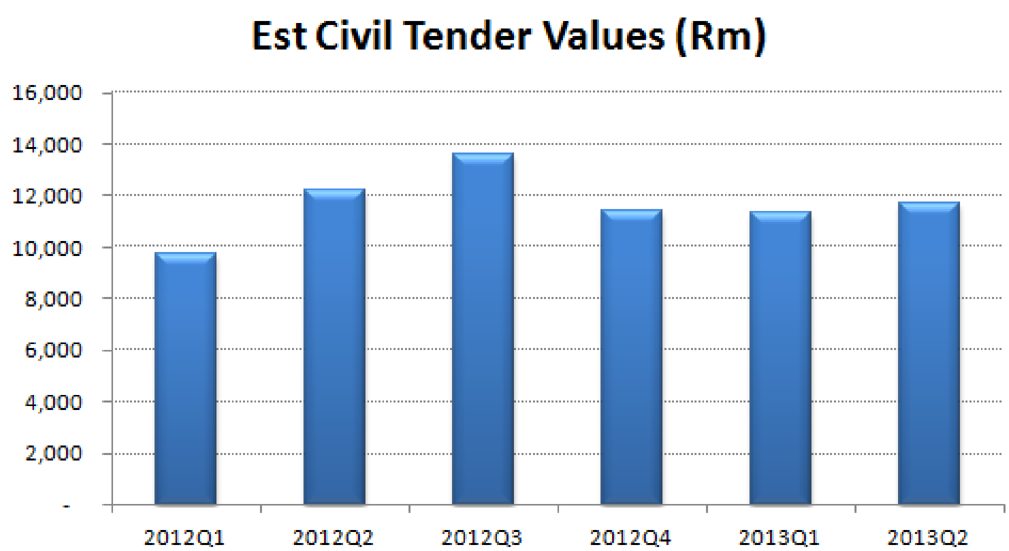


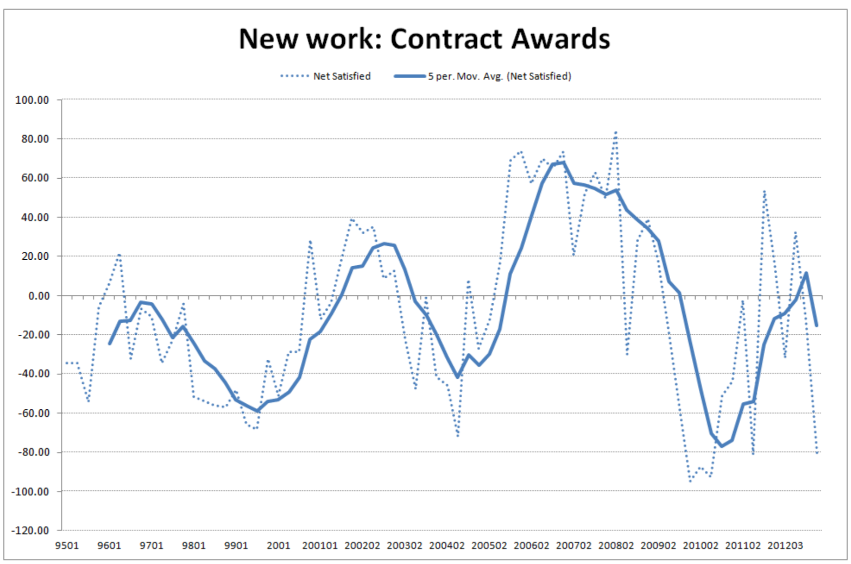
Figure 12: Estimated Civil Tender Values

Awards

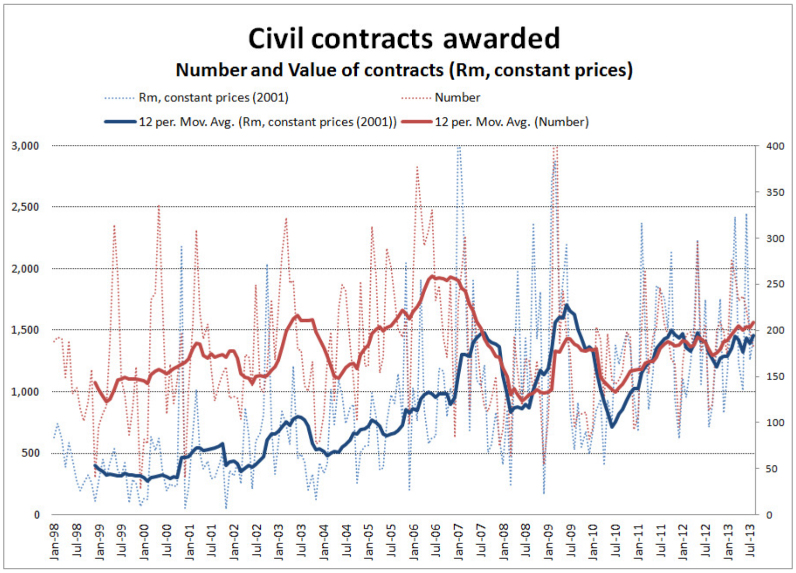
Outlook weaker for 2nd quarter 2013

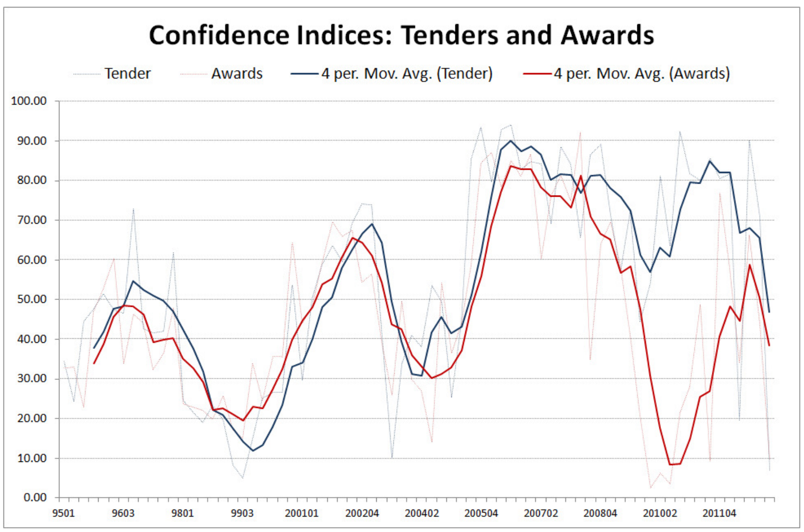
Table 28: Opinion of the value of contracts awarded (April – June 2013)

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
Nil	0.0%	28.6%	20.0%	8.3%	2.2%
Low	100.0%	14.3%	40.0%	47.7%	88.0%
Satisfactory	0.0%	57.1%	40.0%	22.7%	9.7%
Good	0.0%	0.0%	0.0%	21.3%	0.0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Nett % satisfied	-100.0%	14.3%	-20.0%	-12.1%	-80.5%



The pessimism towards the awarding of tenders continued in the 2nd quarter of 2013. Firms were less optimistic regarding the value of contracts awarded during the 2nd quarter of 2013, also evident in the 3 percent drop in the nominal value of contracts awarded (compared to 2012Q2) from a positive nett satisfaction rate of 32,7 percent in 2012Q4 to -12.1 percent in the 1st quarter of 2013 and -80.5 percent in the current quarter. Large firms were divided, with some experiencing good awards and others experienced the award of contracts as low. However, firms did not experience the market as being better than simply "satisfactory", while majority of the smaller firms are of the opinion that awards good.





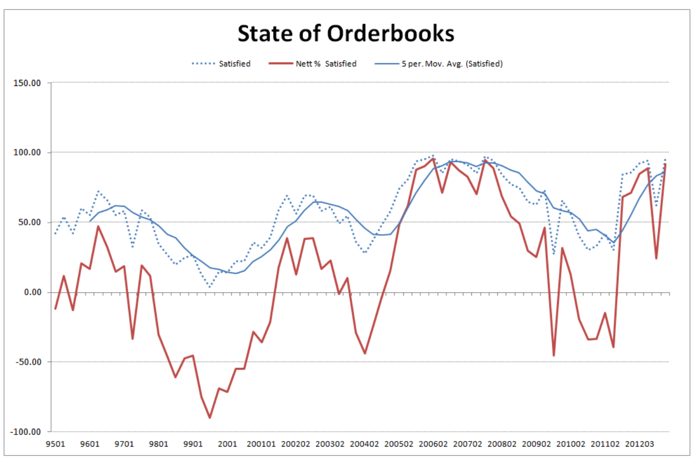
The number of civil contracts awarded fell by 2% in the 2nd quarter of 2013 compared to the 1st quarter and was 5 percent lower compared to the same quarter in 2012. Following impressive quarter on quarter growth during the 4th quarter of 2012 and the 1st quarter of 2103, the annual rate of change, smoothed over a four quarter period improved from 7 percent y-y (2013Q1) to 9,2 percent in Q2. The opinions expressed by firms related to both tender and awards continued to deteriorate. The negative sentiment may be influenced by the opinions expressed by larger firms, as market activity (both in terms of awards and tenders) in general has not deteriorated, and in fact improved in recent months.

Figure 13: Opinion related to tenders and awards

State of Order books

Table 29: Opinion of forward order books (April - June 2013)

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
Nil	0.0%	0.0%	20.0%	0.0%	0.0%
Low	0.0%	28.6%	40.0%	37.8%	4.0%
Satisfactory	100.0%	28.6%	20.0%	27.6%	89.6%
Good	0.0%	42.9%	20.0%	34.5%	6.4%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Nett % satisfied	100.0%	42.9%	-20.0%	24.3%	91.9%



The opinions related to order books, contradicted the opinions expressed related to tenders, awards and turnover, and actually strengthened in the 2nd quarter of 2013. Almost 90 percent of firms were satisfied with the state of their order books in the 2nd quarter of 2013, compared to only 75 percent in the 1st quarter of 2013. The net percentage satisfied improved from 24.3 percent in Q1 to 91.9 percent in Q2. The trend line remains on an upward trajectory.

The set of financial results released during the 2nd quarter included a diverse range of improved and deteriorating order books.

- Aveng reported a 20 percent drop in the value of their forward looking order book to R37.4bn
- Murray & Roberts reported a 1,5 percent drop to R7bn in their construction division's orderbook.
- Basil Read's construction division reported a 25 percent improvement in their order book to R10bn
- WBHO's order book for South Africa increased by 74 perccent to R11,9bn

Turnover

Table 30: Opinion turnover (April - June 2013)

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
Nil	0.0%	0.0%	0.0%	0.0%	0.0%
Low	0.0%	28.6%	75.0%	38.2%	4.2%
Satisfactory	100.0%	42.9%	0.0%	25.3%	90.6%
Good	0.0%	28.6%	25.0%	36.5%	5.2%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Nett % satisfied	100.0%	42.9%	-50.0%	23.7%	91.6%

Firms were mostly satisfied with turnover during the 2nd quarter of 2013, 4th quarter, except for smaller firms where majority of firms experienced low turnover levels. The nett satisfaction rate (weighted for all firms) averaged 91,6 percent for the 2nd quarter, compared to 23,7 percent in the first quarter of 2013, as an increasing number of firms reported satisfactory levels of turnover.

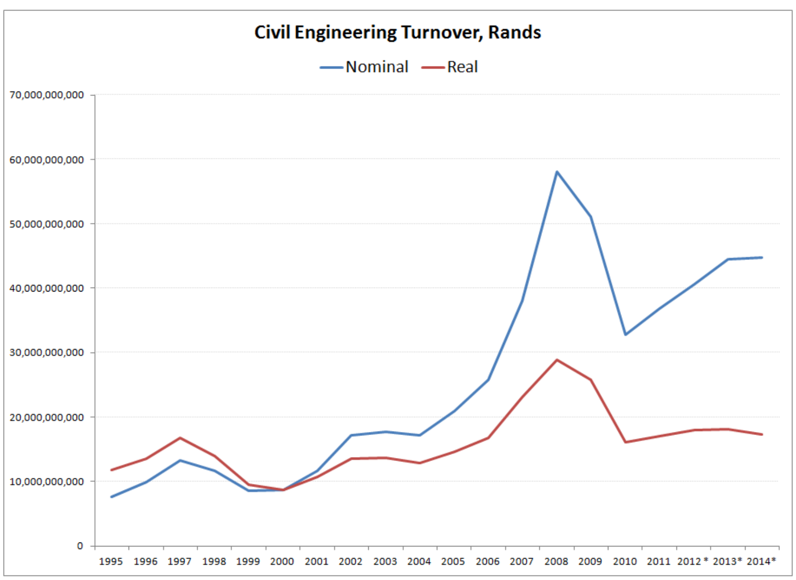


Figure 14: Civil Engineering Turnover

Turnover increased by 40 percent since the 1st quarter of 2013, compared to a decrease of 14 percent (q-q) in the 1st quarter of 2013 (compared to the last quarter of 2012). In spite of the impressive current quarter on quarter performance, turnover was still 1,8 percent lower in real terms compared to the same quarter in 2012.

Turnover increased by around 6,1 percent (revised) in real terms during 2012, allowing for inflation of 4,6 percent in the CPAF. Turnover increased by R3bn in nominal terms to an estimated R40,6bn, from R36,9bn in 2011. Based on our assumptions of a similar scenario in 2013, but with slightly higher price pressures, we maintain our view that real growth is expected to slow in 2013, but after the first two quarters, a negative real growth rate is not entirely impossible. At the current rate, using a multiplying factor to predict growth for the year, nominal turnover could reach R41bn, a marginal increase of 1 percent, which means a potential real decrease of 6,9 percent.

The outlook for 2013 is influenced by stable (low) growth in terms of government's budgetary allocations and the possible negative impact of slower domestic and global growth on infrastructure spending in the medium term.

Table 31: Actual and Expected Turnover trends

	Turnover Nominal	*% Change (Nominal)*	*Turnover 2000=100*	*% Change (Real)*
1995	7 653 130 803		11 751 401 745	
1996	9 864 977 221	28.9%	13 548 444 351	15.3%
1997	13 282 356 448	34.6%	16 806 228 721	24.0%
1998	11 680 899 837	-12.1%	13 987 962 456	-16.8%
1999	8 600 472 761	-26.4%	9 455 575 722	-32.4%
2000	8 669 595 494	0.8%	8 639 968 534	-8.6%
2001	11 723 000 614	35.2%	10 762 140 678	24.6%
2002	17 138 501 083	46.2%	13 564 355 097	26.0%
2003	17 701 840 728	3.3%	13 621 980 350	0.4%
2004	17 180 281 073	-2.9%	12 844 628 262	-5.7%
2005	20 999 901 277	22.2%	14 682 985 873	14.3%
2006	25 783 535 490	22.8%	16 786 189 738	14.3%
2007	38 084 310 982	47.7%	23 146 856 716	37.9%
2008	58 063 639 993	52.5%	28 955 855 614	25.1%
2009	51 147 261 584	-11.9%	25 857 399 665	-10.7%
2010	32 744 103 366	-36.0%	16 140 361 470	-37.6%
2011	36,888,136,573	12.7%	17,072,566,308	5.8%
2012 *	40,952,061,358	11.0%	18,114,209,476	6.1%
2013*	44,771,430,627	9.3%	18,295,351,571	1.0%
2014*	48,655,023,188	8.7%	18,844,212,118	3.0%

**Provisional Figures*

Tender cancellations

The new survey includes a section on tender cancellations. Many firms opted not to answer this part of the survey, which we hope is because their firms were not subject to tender cancellations during the period under review. A more meaningful picture of tender cancellations will be available over time.

Postponements of civil contracts continue to impact negatively on the industry, and have in some way become a norm or acceptable business practice. The number of civil projects postponed peaked at 149 in the 3rd quarter of 2012, but has since then slowed to just over 100 in the 1st quarter of 2013, with a marginal increase to 124 in the 2nd quarter of 2013, which was nonetheless still 26 percent lower compared to the same quarter in 2012. As a percentage of tenders issued (referred to as the postponement rate which is the number of projects postponed expressed as a percentage of tenders advertised during the same period), the rate improved from 15,7 percent in the 2nd quarter of 2012 to 11,2% in the 2nd quarter.

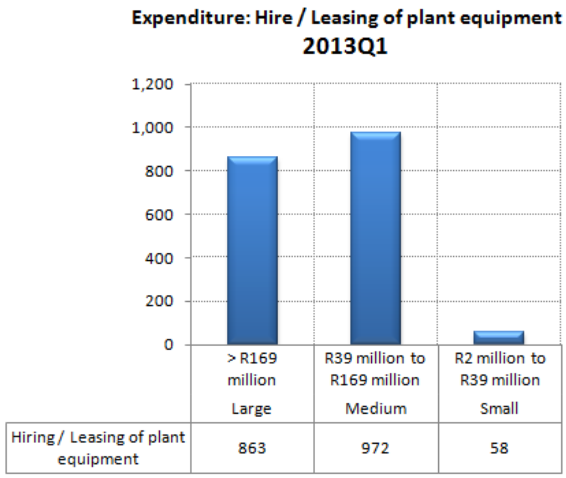
Capacity Utilisation and Plant equipment

Table 32: Capacity Utilisation in terms of general plant and resources for the current quarter (April - June 2013)

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
0-25%	0.0%	0.0%	25.0%	0.4%	0.0%
26-50%	0.0%	0.0%	0.0%	2.3%	0.0%
51-75%	0.0%	33.3%	25.0%	3.7%	6.5%
76-90%	100.0%	50.0%	25.0%	45.6%	91.9%
91-100%	0.0%	16.7%	25.0%	48.0%	1.5%
>100%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%

Table 33: Percentage of plant standing idle during the current quarter

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
0-25%	100.0%	83.3%	80.0%	47.1%	97.2%
26-50%	0.0%	0.0%	0.0%	15.1%	0.0%
51-75%	0.0%	16.7%	0.0%	2.6%	2.7%
76-90%	0.0%	0.0%	0.0%	0.0%	0.0%
91-100%	0.0%	0.0%	20.0%	0.0%	0.0%
>100%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%



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igure 15: Hire / Leasing of plant equipment (Stats SA)

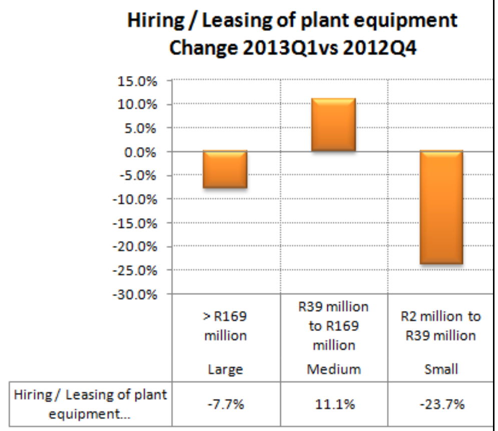


Figure 16: Change in Hire/leasing of plant equipment (Stats SA)

Table 34: Employment, Contract Awards, Turnover and Salaries and Wages

	Employment	Turnover (nominal)	Salaries and Wages
2002	89 806	17 138 501 083	3 792 750 290
2003	93 867	17 701 840 728	3 917 417 353
2004	86 819	17 180 281 073	3 801 996 201
2005	99 636	20 999 901 277	4 647 278 153
2006	113 870	25 783 535 490	5 705 896 404
2007	156 706	38 472 602 944	8 513 987 032
2008	196 596	58 063 639 993	12 849 483 530
2009	174 927	51 147 261 584	11 318 888 989
2010.1	121 395	9 287 099 665	2 055 235 156
2010.2	99 762	7 769 761 961	1 719 448 322
2010.3	97 237	7 687 241 740	1 701 186 597
2010.4	103 968	8 000 000 000	1 770 400 000
2010	105 591	32 744 103 366	7 246 270 075
2011.1	106 463	8 014 928 510	1 773 703 679
2011.2	102 079	8 600 000 000	1 903 180 000
2011.3	100 037	10 187 541 740	2 254 502 987
2011.4	98 837	10 085 666 323	2 231 957 957
2011	101 854	36 888 136 573	8 163 344 624
2012.1	98 837	11 324 591 712	2,506,132,146
2012.2	100 497	10,456,138,926	2,313,943,544
2012.3	105 522	9,933,331,979	2,198,246,367
2012.4	105 522 *	9,237,998,741	2,044,369,121
2012	101 618	40,952,061,358	9,062,691,178
2013.1	101 618*	7,944,678,917	1,758,157,444
2013.2	101 618*	11,122,550,484	2,461,420,422

r revised | * estimate

<u>Performance by listed companies generally improve, but continued to be affected by labour disruptions, slow award of contracts and uncertainty in mining developments.</u>

As a snapshot of the industry financial results reported by Aveng, WBHO, M&R and Basil Read for the 12 months to June 2013, released in the last few months, shows that the industry has secured higher levels of turnover, amidst difficult trading conditions. Isolating revenue generated by their South African activities is difficult, but construction work domestically stabilised amidst lower profit margins, but alongside an encouraging improvement in the order books of the various construction divisions. The impact of penalties finalised largely during June 2013 was noted by all firms concerned and provision made in terms of financial obligations. This together with the impact of labour disruptions was the notes as extraordinary circumstances affecting company performance. Opportunities presented in Africa may pick up, as large projects are finally coming to implementation stage, while the opportunities presented in the renewable energy sector may also start to materialise in the short to medium term. Opportunities in the housing market remains elusive, but a few large projects bound to start (or where ground was recently broken) will support this ailing market segment. There is also an expectation for an accelerated roll out of school projects by late 2013, while the outlook for road construction (albeit improved since last year) is challenged by the delay in the implementation of e-tolling. Various recent reports have warned of SANRAL's financial position in terms of lack of funds to complete various road projects. Profit margins are tight in terms of construction work, and although higher for the mining sector, order books for mining developments are under pressure due to the current high level of uncertainty. In contrast the market for pipelines remain buoyant.

PROSPECTS FOR 2013 and 2014

Turnover has started to improve in recent months as the industry is adapting to an environment characterised by lower growth and softer profit margins. While operating indicators fell back to more negative market sentiment, order books continued to surpass expectations. Conditions were clearly more difficult in the 2nd quarter than expected, and this plays a significant role in confidence regarding the future outlook for business. Revenue generated by the established contractors nonetheless showed a satisfactory improvement based on financials released in the last few months, although profit margins did come under greater pressure. Issues of project delays, unfair tender adjudication, problems with unrealistic expectations at design phases, and implementation of budgets, continue to hamper the growth potential in the industry. According to information released in the 2013 Budget, spending on infrastructure will remain a priority and not be affected by cuts in spending necessary to align budgets with lower levels of revenue. However, allocations have been "pushed forward" somewhat, with the real growth in infrastructure spending projected to fall by 1 percent if we allow a 7 percent to 8 percent increase in construction costs. Real growth is projected to improve to 3,2 percent in 2013/14 and 4,0 percent by 2015/16. Conditions are more serious if we look at the various departments, where expenditure by DWAF is projected to increase by 14,9 percent in real terms, spending on transport is projected to fall by 4 percent in real terms during the current financial period. This will have a serious impact on medium and smaller size firms, where large portions of their turnover are generated in road construction. The disparity between larger and smaller firms was evident in the current survey, and will remain a key focus area for future reports. Larger firms have benefitted from increased off shore exposure, while smaller firms are grappling with ongoing issues at provincial and local government hindering successful project implementation.

Considering the pace of growth during the last two years (5,8 percent in 2011 and an estimated 5,3 percent in 2012, in real terms), the outlook for 2013 is sensitive to changing conditions that could either stimulate or retract growth in the current year. In this regard, a negative real growth for 2013 cannot be discarded. In order for growth to accelerate, government would either have to increase revenue available for infrastructure spending, improve expenditure of allocated budgets, or private sector investment needs to accelerate. All these scenarios are unlikely in our opinion for 2013, in view of the global and macroeconomic environment, and low levels of business confidence. Turnover accelerated by R3bn in nominal terms during 2012 and assuming a similar level of increase in 2013, growth is likely to slow to 1% in real terms during 2013, allowing for construction costs to increase by between 7 and 8 percent.

While government has maintained its "priority" spending on infrastructure it is very likely that the delivery timeline of many of the larger projects will be pushed further away, as already noticed in the 2012/13 Budget as well as in the 2013 Budget.

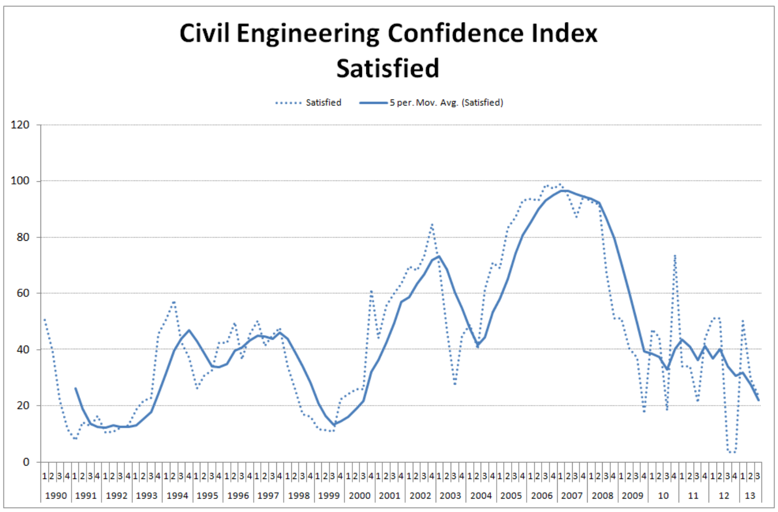
Uncertainty relating to the developments in the mining industry will also have a negative impact on the industry, forcing local construction companies to continue to explore cross border opportunities.

Opportunities are realising in terms of renewable energy projects, with commitment from the private sector.

Challenges that continue to hamper growth potential in the industry, as reported by members, include corruption in the tender process, unfair tender adjudication, shortage of qualified and skilled engineers, effective spending of budgetary allocations, more sustainable "flow" of work (related directly to more effectively planning and implementation of projects), clarity on certain policy issues for example those affecting the mining industry and the regulations imposed by the CIDB in terms of contractor registration (and grading), the supply of materials (in particular bitumen is a problem at the moment).

Confidence Index

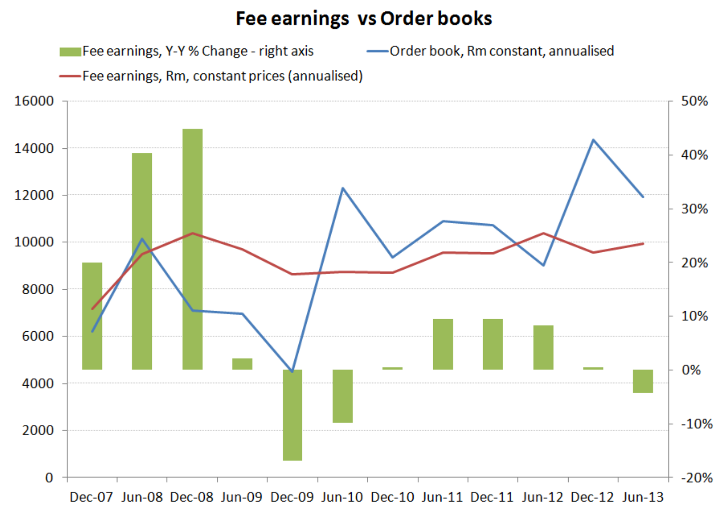
The confidence index relates to the overall business outlook amongst the companies within the industry. Levels below the 50-mark indicate pessimism, 0 equals total negativity, and 100 indicates absolute optimism. This is a continuously changing weighted index (solid line). The quarter on quarter movement in the index has been more erratic lately, but on a definite downward trajectory path. The smaller sample size, combined with the change in sample profile (higher contribution of smaller firms) and uncertainty in the industry are all contributing factors that must be considered.



Confidence levels slipped further in the last survey, with a higher percentage of firms finding business conditions to be rather poor (51,8 percent vs 47,5 percent in 2013Q1), with 46.7 percent (vs 36,8 percent in 2013Q1) saying conditions are only average. The weaker overall business sentiment can be explained by the weakening in opinions related to tender volumes and awards, combined with deteriorating profitability aggravated by rising costs of production, and a rather dismal outlook on economic growth. The confidence index however is a national average, as certain provinces and disciplines are nonetheless performing better than others. For example conditions in Kwazulu Natal are outperforming the national trend, with a strong focus on water and road construction projects. Confidence indices for the different firm categories will only be available as more data becomes available to build a trend line. It is interesting to note that while many of the indicators are pointing to an improved working environment, underlying conditions are still extremely difficult, volatile and hence somewhat unpredictable.

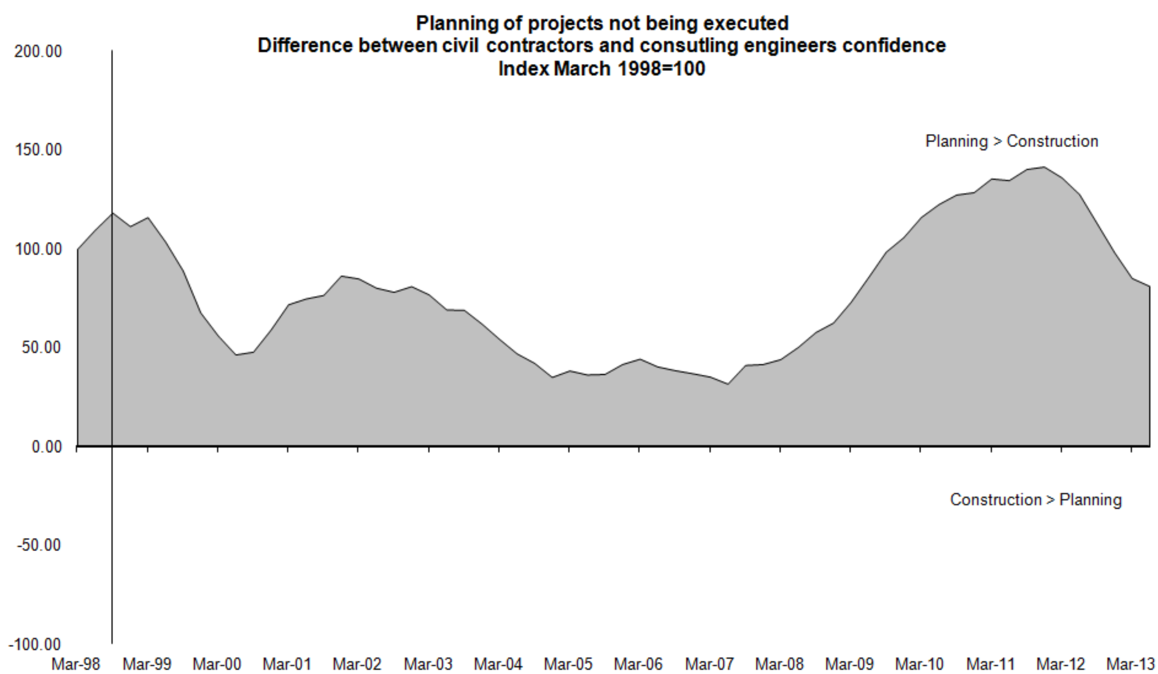
Consulting Engineering Industry

Slow growth amidst improving profitability



Fee earnings in the consulting engineering industry accelerated at a faster pace than expected in the first six months of 2013, up 7,0 percent in nominal terms, after slowing down in the last half of 2012. However, compared to the same period in 2012, earnings increased only marginally, up 1,0 percent), which in real terms (adjusted for inflation) means an annual decrease of 4,3 percent.

Firms expected stronger growth in the last six months of 2013, with earnings expected to accelerate by 10 percent in nominal terms, which would then translate into a 17 percent increase compared to the last six months of 2012. However, although the ratio between prevailing Orderbooks and current earnings has improved it may not be sufficient to support a 10 percent growth outlook. In spite of the overall improved growth outlook, majority of firms (53 percent) still reported negative growth in the first six months. Total fee income as at June 2013 (annualised, current prices) is estimated to have increased to R20,4 billion.



The relationship between confidence levels of engineers and civil contractors deteriorated from 2009 onwards, as consulting engineers seem to remain busy, while work opportunities for civil construction deteriorated, or otherwise put, could not keep up with the pace experienced during the pre-2010 World cup preparation phase. That trend between confidence levels amongst consulting engineers and contractors has however shown some improvement, as contractors are re slightly more optimistic.

The table below shows the contribution of consulting engineering earnings by economic sector and how it has changed since 2010. Over a third of earnings are still generated in the transportation sector, while energy and mining gained some market share in the last six months. Earnings related to the commercial sector fell to just 11,0.

Table 35: Percentage of consulting engineering fee income earned by economic sector

Economic sector	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	Change in the last 6 months
Water (Full water cycle)	14.0%	9.7%	12.8%	15.9%	11.4%	13%	1.4%
Transportation (land, air, road, rail, ports)	32.5%	22.8%	27.0%	29.4%	24.0%	32%	7.9%
Energy (electricity, gas, hydro)	3.4%	7.8%	14.9%	11.9%	6.6%	11%	4.7%
Mining / Quarrying	8.3%	9.8%	6.6%	5.6%	18.5%	17%	-1.8%
Education	0.5%	0.7%	1.3%	1.2%	1.2%	1%	-0.3%
Health	0.4%	0.9%	1.3%	1.1%	1.2%	1%	-0.2%
Tourism/Leisure	0.1%	0.7%	0.5%	0.7%	0.8%	1%	-0.1%
Housing (residential inc. land)	16.8%	12.0%	8.4%	5.5%	6.1%	8%	1.5%
Commercial[4]	18.1%	21.3%	16.6%	16.4%	15.8%	11%	-4.7%
Agriculture / Forestry / Fishing	3.3%	1.8%	1.3%	1.3%	1.1%	3%	1.8%
Other	2.6%	12.5%	9.4%	11.0%	13.4%	3%	-10.2%
Total	100.0%	100.0%	100.0%	100.0%	100%	100%	-

A copy of the full report can be downloaded from www.cesa.co.za .

[4] Commercial includes: Manufacturing, industrial buildings, communication, financial, facilities management

CIVIL ENGINEERING PRICE MOVEMENTS

Input cost price movements based on the Baxter contract price adjustment formula (CPAF) averaged 4,9 percent in the second quarter of 2013, compared to 4,7 percent y/y increase during the first quarter and average increase of 4,6 percent in 2012.. Recent price pressures were mainly from higher fuel prices due to the weaker currency and corresponding oil price hike. The fuel index increased by 17,4 percent y/y as at August 2013, while the plant index accelerated from 2,8% y/y in December 2012 to 7,8 percent in August. The composite material index accelerated from an average increase of 2,7 percent in the 1st quarter of 2013 to 5,3 percent by August. Labour costs are understated in the CPAF, as actual wage increases are well in excess of inflation, as previously noted in this report. Headline CPI increased by 6,4 percent in August 2013, the strongest increase since July 2009 when it was 6,7 percent. As expected price pressures have intensified during 2013, putting increasing pressure on input costs.

The outlook for the remainder of 2013 assumes continued pressure on the fuel price, brought about by a combination of currency volatility and international oil prices, while the September 2013 wage strike will also lead to a once off adjustment in the petrol price. The composite index is therefore expected to accelerate from an average increase of 4,6 percent in 2012 to 8,3 percent in 2013, easing to 5,7 percent by 2014.

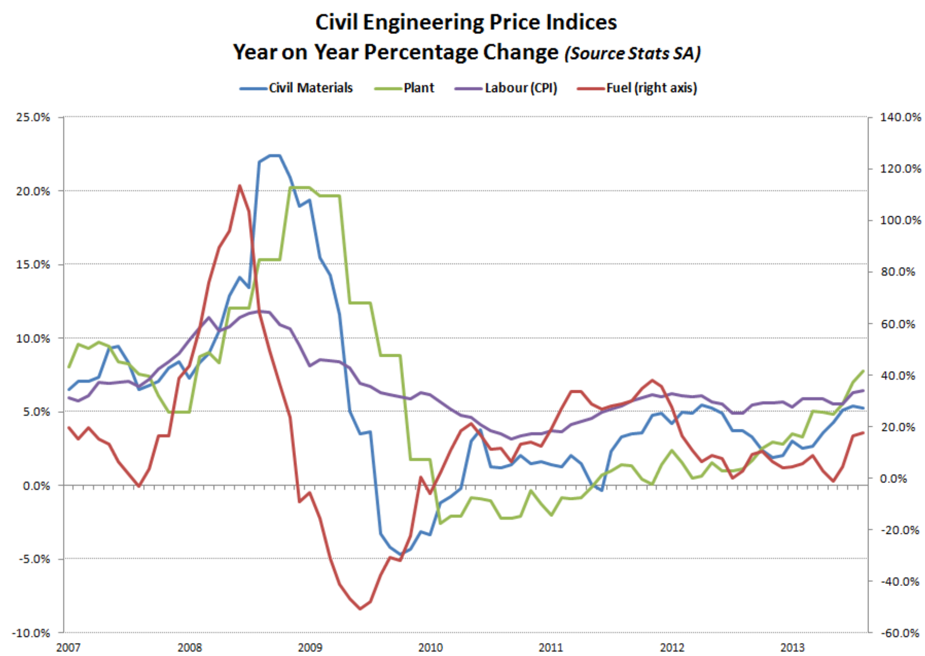


Figure 18: Civil Engineering price movements (source Stats SA)

Table 36: Macro Price Assumptions

	2010	*2011*	*2012*	*2013*	*2014*	*2015*
R/US$ Exchange Rate	6.9	7.3	8.21	9.40	10.1	10.3
Oil price ($ per barrel, UK Crude oil)	79.5	108.6	111.80	110.00	115.00	120.00
Oil Price (ZAR per barrel)	545.9	792.8	917.88	1034.0	1156.7	1231.0
CPI (% change)	4.3%	5.2%	5.7%	5.9%	5.3%	5.6%

Table 37: CPAF Indices Forecast 2012 - 2015

Index 2012= 100	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Plant	98.2	98.4	100.0	114.5	122.5	124.9
Fuel	70.4	91.9	100.0	112.7	126.0	134.2
Materials	94.0	96.2	100.0	107.0	112.3	117.9
Labour	177.7	186.6	197.2	208.8	219.9	232.2
Composite	118.0	123.6	129.1	140.3	149.0	155.9
Y-Y Inflation						
Plant	-1.3%	0.1%	1.6%	14.5%	7.0%	2.0%
Fuel	10.8%	30.5%	8.8%	12.7%	11.9%	6.4%
Materials	0.8%	2.4%	3.9%	7.0%	5.0%	5.0%
Labour	4.3%	5.0%	5.7%	5.9%	5.3%	5.6%
Composite	2.3%	4.7%	4.5%	8.7%	6.2%	4.6%

Table 38: CPAF Indices (Quarterly Average)

		CPAF Indices 2012=100					Y-Y Inflation				
Year	Quarter	Materials	Labour	Fuel	Plant	Composite	Materials	Labour	Fuel	Plant	Composite
2010	1	93.7	175.5	66.4	98.7	117.0	-1.7%	5.7%	1.8%	-1.0%	1.9%
	2	94.6	177.3	72.4	98.5	118.4	2.2%	4.5%	18.9%	-1.3%	3.2%
	3	93.8	178.7	70.6	97.9	118.2	1.3%	3.5%	9.7%	-1.8%	1.9%
	4	93.9	179.5	72.3	97.8	118.6	1.7%	3.4%	13.1%	-1.2%	2.4%
2011	1	95.2	182.2	84.1	97.4	120.8	1.6%	3.8%	26.7%	-1.3%	3.3%
	2	95.0	185.5	94.0	98.4	123.1	0.4%	4.6%	29.8%	-0.1%	4.0%
	3	96.7	188.4	91.1	99.1	124.4	3.1%	5.5%	28.9%	1.3%	5.2%
	4	98.0	190.4	98.5	98.4	125.9	4.4%	6.1%	36.2%	0.6%	6.2%
2012	1	99.6	193.3	99.0	98.9	127.5	4.7%	6.1%	17.8%	1.5%	5.5%
	2	100.0	196.2	101.2	99.5	128.8	5.2%	5.8%	7.6%	1.0%	4.6%
	3	100.1	198.0	94.8	100.4	129.0	3.6%	5.1%	4.1%	1.3%	3.8%
	4	100.1	201.1	105.1	101.2	131.2	2.1%	5.6%	6.8%	2.8%	4.2%
2013	1*	102.4	204.4	105.3	102.8	133.4	2.7%	5.7%	6.3%	4.0%	4.7%
	2*	104.3	207.2	103.1	104.5	135.1	4.3%	5.7%	1.9%	5.1%	4.9%
	3*	107.1	210.3	109.2	115.2	140.7	7.0%	6.2%	15.2%	14.7%	9.0%
	4*	107.6	213.0	119.6	115.2	142.7	7.5%	5.9%	13.7%	13.9%	8.7%
2014	1*	111.7	215.1	120.1	121.2	146.4	9.1%	5.3%	14.0%	17.9%	9.8%
	2*	112.1	218.6	128.2	122.2	148.7	7.5%	5.5%	24.3%	16.9%	10.0%
	3*	112.5	221.4	122.2	123.2	149.3	5.0%	5.3%	11.9%	7.0%	6.2%
	4*	113.0	224.3	133.8	123.3	151.5	5.0%	5.3%	11.9%	7.0%	6.2%

*forecast

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    b. Contract Price Adjustment Provision
    c. Consumer Price Index
    d. Production Price Index
6. FNB/BER confidence Indices
7. Bi-annual Economic and Capacity Survey, CESA, June 2013 (www.cesa.org.za)
8. Estimates of National Expenditure Reviews

Annexure A

Table 39: Infrastructure Expenditure Allocations, Rm, current prices (not adjusted for construction cost inflation)

Department Vote	*2010/11*	*2011/12*	*2012/13*	*2013/14*	*2014/15*	*2015/16*	*2013 MTEF*
Water Affairs	2,604,200	3,454,000	5,048,300	6,263,300	8,189,200	10,193,500	24,646,000
Transport	18,916,000	22,346,100	26,273,600	27,240,500	32,478,500	36,767,900	96,486,900
Public c Works	1255900	1011400	999300	676200	839400	1066000	2,581,600
Health	4257100	5683400	5384500	5847000	6337200	6526600	18,710,800
Human Settlements (including grants to provinces)	18108700	18740000	23458800	26167500	28366100	30458300	84,991,900
Cooperative Governance and Traditional Affairs	12528900	11443500	13881600	14060700	13803500	14406800	42,271,000
National Treasury	1051500	887900	829200	817700	810600	824900	2,453,200
Sport and Recreation South Africa	512600	0	0	0	0	0	0
Arts and Culture	447800	364300	483000	509500	540100	565000	1,614,600
Labour	16900	7100	17400	16400	14800	9400	40,600
International Relations and Cooperation	267900	205200	207000	202900	214000	223800	640,700
Home Affairs	67200	78900	27600	205300	243300	3800	452,400
Science and Technology	236900	417700	483700	878100	905500	965800	2,749,400
Correctional Services	950900	592400	755800	800200	813000	819900	2,433,100
Defense	699900	530700	1187800	932300	948200	980200	2,860,700
Justice and Constitutional Development	624100	700400	1005800	1161700	1241400	1202600	3,605,700
Police	1118200	671100	794600	1036900	1099900	1149500	3,286,300
Agriculture, Forestry and Fisheries	121300	262200	807400	693900	810100	822800	2,326,800
Communications	191000	533900	165800	655300	131800	64900	852,000
Environmental affairs	601700	642800	278100	418400	559900	622400	1,600,700
Rural Development and Land Reform	6900	20800	69000	2200	0	0	2,200
Energy	4,253,200	4,334,400	4,530,800	3,775,800	4,052,700	5,736,100	13,564,600
Trade and Industry	1224400	834400	854900	644000	216700	226700	1,087,400
Basic Education	3242800	5597700	8096800	8,807,500	10563700	13215900	32,587,100
Higher Education and Training	1585000	1625300	1800000	2150000	2700000	3300000	8,150,000
Grand total	74,891,000	80,985,600	97,440,800	103,963,300	115,879,600	130,152,800	349,995,700

Source: Estimates of Expenditure, Budget Review