SOUTH AFRICAN FORUM OF CIVIL ENGINEERING CONTRACTORS

State of the South African Civil Industry

1st Quarter 2014

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ECONOMIC BACKGROUND

South Africa's domestic economy continues to perform below potential, emerging market growth outlook deteriorates, while growth in advanced economies is slowly strengthening

Global growth is estimated to have increased by 3 percent in 2013, strengthening to 3,7 percent in 2014 and 3,9 percent in 2015. Economic activity has strengthened in advanced economies, while the outlook for emerging markets, although still positive, has weakened in recent months as emerging economies are adjusting due to higher levels of currency volatility capital inflows, current account and fiscal deficits, debt levels and varying levels of business and consumer confidence. Currency depreciation is likely to result in higher levels of inflation for most of the emerging economies, including South Africa. Economic growth in emerging markets is nonetheless expected to increase from an estimated 4,7 percent in 2013, to 5,1 percent in 2014. Because of an expected slowdown in China's economy, emerging markets are expected to slow to 4,7 percent in 2015. Developing economies account for a growing share of global trade and investment, from 18 percent twenty years ago to 38 percent, which means these economies will have a more profound global impact.

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. Sub-Saharan Africa is nonetheless still expected to remain the second fastest growing region in economic terms with growth of 6,1 percent in 2014 and 5,8 percent in 2015, with the main risk to the growth outlook relating to moderating commodity prices due to slower growth in China.

As economies are yet again faced by rising inflation (yet this time amidst slower economic growth), some economists have come out in strong criticism to central banks inflation target policies saying it has been discredited as a viable economic tool.

Table 1: World Economic Outlook (Source: IMF)

	2012	***2013***	***2014***	***2015***
World	3.1	3.0	3.7	3.9
US	2.2	1.9	2.8	3.0
Eurozone	-0.6	-0.4	1.0	1.4
UK	0.3	1.7	2.4	2.2
Emerging Markets		4.7	5.1	5.4
Brazil	0.9	2.3	2.3	2.8
Russia	3.60	1.5	2.0	2.5
India	3.2	4.4	5.4	6.4
China	7.8	7.7	7.5	7.3
Sub-Saharan Africa	4.9	5.1	6.1	5.8
SA	**2.5**	**1.8**	**2.7**	**3.2**

Domestic Economy

The long anticipated cut back of US Federal bond purchases began in January 2014, resulting in increasing emerging market turbulence. The outlook on emerging markets was further negatively affected by an anticipated slowdown in China and disappointing growth from other emerging economies, resulting in a downward revision in emerging market growth outlook by the IMF.

Economic growth is estimated at around 1,9 percent for 2013, which is well below initial forecasts of between 2,4 and 2,5 percent. As at the 4th quarter of 2013 GDP growth improved from an annualised growth of 0,7 percent in Q3 to 3,8 percent in Q4. Domestic conditions are expected to remain subdued in 2014, increasing by 2,7 percent in 2014 and 3,2 percent in 2015, according to growth estimates by National Treasury.

A few highlights are worth mentioning:

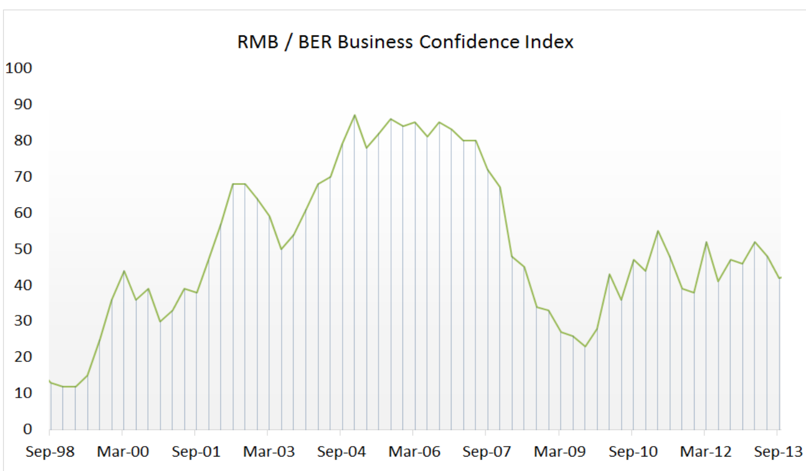
- Public Sector infrastructure is estimated to increase to R847 bn in nominal terms, in the next three years, increasing by 8% in 2014/15, 5% in 2015/16 with no nominal growth predicted for 2016/17. In real terms, therefore real growth may decline in the next three years. Details of expenditure by vote is included as Annexure B.
- Government spending is generally negatively affected during post-election periods as it causes an inevitable delay in tender announcements and the awarding of contracts.
- The Repo rate was increased by 50 basis points to 6 percent in February 2014 resulting in an increase in the prime lending rate from 8,5 percent to 9,0 percent.
- The 2014 Budget projects that, because spending will be contained over the MTEF period, alongside higher albeit marginal, economic growth, that the budget deficit (difference between revenue and expenditure) will be narrowed from 4,4 percent in 2013/14 to 2,8 percent in 2016/17. Government expenditure is projected to fall from 33,2 percent of GDP in 2013/14 to 31,9 percent in 2016/17. The current account deficit is also projected to show a small improvement from -6,1 percent of GDP in 2013 to -5,5 percent in 2016. Showing fiscal discipline is not only important to restore investor confidence, but also to discourage a further downgrade in South Africa's debt rating.
- South Africa continues to grapple with low levels of business and consumer confidence that will continue to dampen private sector investment
- Growth in consumption expenditure moderated from an annual increase of 2,8 percent in Q2 to 2,3 percent in Q3. Consumer spending is capped by modest rise in credit extension, slow pace of employment and continued job losses in the private sector, aggravated by the 50 basis point increase in lending rates in February 2014. Growth in consumption expenditure by households is not expected to exceed 3,5 percent in the next three years, and is expected to be below 2,5 percent for government consumption.
- Household consumption expenditure is also affected by slower growth in wage rates. The growth in the nominal remuneration per worker declined from 8,8 percent in Q2 to 6,6 percent in Q3.
- Growth in credit extension to the private sector continued to lose momentum, while household debt remains high by historical terms. The increase in the prime lending rate will certainly not help these current negative conditions.
- The mining sector is expected to remain under pressure due to labour interruptions at the platinum mines, potentially spreading to gold mines. Other constraints include the overall weak global environment, uncertain local policy environment, rising production costs, lower commodity prices. In spite of this, Nedbank released its capital expenditure project listing report which stated that 11 new projects worth R33bn were announced in largely the first half of 2013 compared to projects worth R16,4 bn announced in 2012.
- The manufacturing sector has as yet not shown any meaningful reaction to the weaker exchange rate, and although there was some improvement in the fourth quarter, it may have been initiated by a recovery after the impact of the strike action in the 3rd quarter.

- Outlook on inflation has deteriorated as the weaker exchange rate filters through to higher import prices. Inflation is expected to breach the upper 6 percent target by mid 2014, averaging 6,2 percent for 2014 before moderating to 5,9 percent in 2015 and 5,5 percent in 2016.
    - International economist, Professor Joseph Stiglitz, who delivered a paper at the 2014 Discovery Leadership Summit, has come out in strong criticism of global central banks that continued to focus primarily on inflation targeting, describing it as a “discredited” instrument and the wrong priority for the current phase of economic recovery. Although we agree with the original rationale in the implementation of inflation targeting, we couldn’t agree more with Professor Stiglitz comment that perhaps it is time to re-evaluate the purpose of inflation targeting. Especially when inflation is pushed beyond the target boundaries by administered prices (prices that are determined by government and not by consumer demand) and external factors such as a weaker rand or higher oil prices, which in many cases are as a result of the reaction by international markets to, for example broader emerging market risk perceptions, or oil supply fears.
- The Reserve bank has lowered their growth outlook for South Africa to 2,7 percent and 3,2 percent for 2014 and 2015, from 3,0 and 3,4 percent in the previous forecast.
    - Risks include challenges to overcome emerging market volatility in terms of capital flows, weaker exchange rate and the impact on inflation, continued strike action and labour unrest, managing market perceptions in terms of sovereign debt ratings in view of SA’s current account deficit and poor service delivery record.

Table 2: Macroeconomic performance and projections: 2010 - 2016

Percentage change	Actual			Estimate	Forecast		
	2010	2011	2012	2013	2014	2015	2016
Final household consumption	4.4	4.9	3.5	2.7	2.8	3.2	3.4
Final government consumption	4.4	4.3	4.0	2.5	2.2	2.3	2.4
Gross Fixed Capital formation	-2.1	4.2	4.4	3.2	4.2	5.3	6.0
Gross domestic expenditure	3.9	4.6	4.0	2.8	2.8	3.4	3.7
Exports	9.0	6.8	0.4	4.8	5.6	6.3	7.0
Imports	11.0	10.0	6.0	7.3	5.3	6.1	7.0
Real GDP Growth	3.1	3.6	2.5	1.8	2.7	3.2	3.5
CPI Inflation	4.3	5.0	5.6	5.7	6.2	5.9	5.5
R/$ Exchange rate	6.91	7.30	10.0	11.0	11.5	12.10	12.7

Source: Budget 2014 Review, Industry Insight estimates



The lack of upward momentum in business confidence continues to impact negatively on private sector investment. Business confidence averaged below the 50 percent neutral mark in the second half of 2013 according to the BER/FNB business confidence survey, with hardly any improvement shown in the 4th quarter of 2013 (a level of 43 compared to 42 in Q3). 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 while the 4th quarter was influenced by increasing currency volatility.

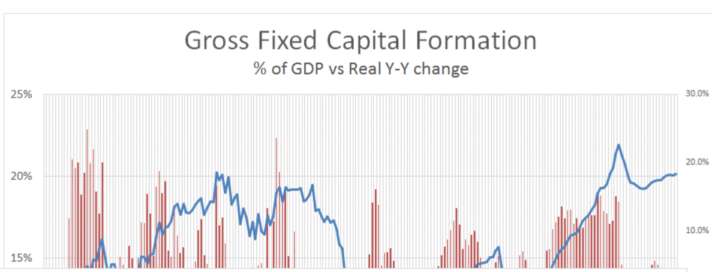
Table 3: Gross Domestic Product at market prices

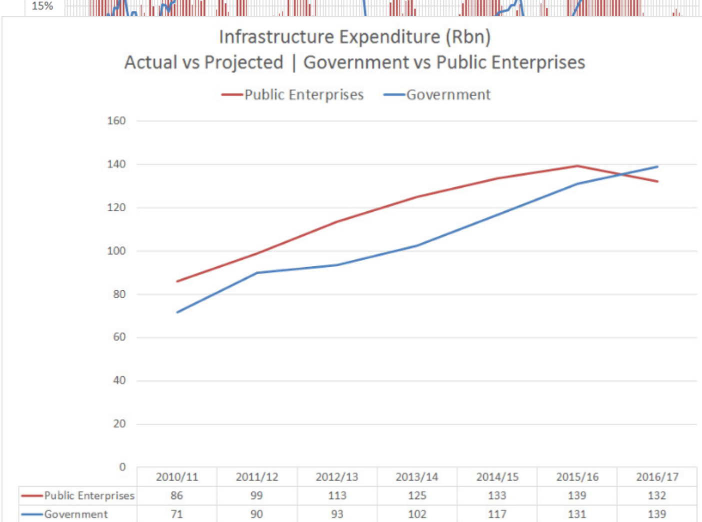
	2009 Annual	2010 Annual	2011 Annual	2012 Annual	2013 Annual	1st Quarter 2013	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013
Agriculture, forestry and fishing	-3.00%	0.49%	-0.1%	2.3%	2.3%	-4.9%	-3.0%	3.6%	6.4%
Mining and quarrying	-4.2%	5.5%	0.3%	-4.0%	3.1%	14.6%	-5.4%	11.4%	15.7%
Manfacturing	-10.4%	5.4%	3.6%	2.4%	0.8%	-7.9%	11.7%	-6.6%	12.3%
Electricity and water	-1.6%	1.7%	1.1%	-1.2%	-0.4%	-3.0%	5.1%	3.8%	-5.6%
Construction	7.4%	0.9%	0.5%	2.5%	2.8%	0.9%	2.3%	2.1%	3.1%
Wholesale and retail trade; hotels and re	-2.5%	3.5%	4.5%	3.6%	2.2%	1.9%	3.1%	1.3%	2.3%
Transport and communication	0.6%	2.0%	3.1%	2.3%	1.9%	2.2%	1.5%	2.6%	1.6%
Finance, real estate and business service	0.9%	2.0%	4.0%	3.3%	2.4%	3.3%	3.5%	1.3%	1.5%
General government services	4.1%	2.7%	3.9%	3.1%	1.5%	1.9%	0.2%	0.4%	0.9%
Total value added at basic prices	-1.5%	2.9%	3.3%	2.4%	1.9%	0.8%	3.3%	0.6%	4.1%
Taxes less subsidies on products	-2.9%	3.0%	4.9%	3.8%	2.1%	1.5%	3.1%	2.1%	1.8%
GDP at market prices	-1.7%	2.9%	3.5%	2.5%	1.9%	0.9%	3.2%	0.7%	3.8%

Source Statistics South Africa

Gross fixed capital formation

The annual growth in gross fixed capital formation (GFCF) continued to slow and increased by an annual rate of 2,9 percent in the 3rd quarter of 2013, compared to an increase of 3,3 percent and 3,5 percent in the two preceding quarters. Gross fixed capital formation as a percentage of GDP stabilised at 20,1 percent in the first three quarters of 2013 compared to 19,8 percent in the same period in 2012. This means by historical comparison as a country we are still investing a higher portion of our GDP to investing in capital stock, although much more is needed to restore the current structural imbalance caused by decades of disinvestment in critical infrastructure. Treasury expects stronger growth in fixed capital formation, in spite of moderate growth from further investment by public sector entities and only moderate growth expected from the private sector.





At this stage, government is showing the strongest increase in GFCF investment, up 3,7 percent y-y in the 3rd quarter, compared to an increase of 2,0 percent for public sector entities and 3,0 percent for private sector. As expenditure growth on infrastructure by public sector entities is projected to increase by 6 percent in 2014/15 and 4,3 percent in 2015/16, compared to government's projected infrastructure growth of 14 percent and 12 percent in the next two years, government could be playing a more important role to stabilise investment in construction. Government's annual infrastructure spending should exceed spending by public enterprises by 2016/17 (see chart above).

The NDP clearly stipulates that public infrastructure investment should be 10 percent of GDP, financed through tariff's, PPP's taxes and loans. Unfortunately, information released in the 2014 Budget contradicts the targets set out in the NDP in that public sector infrastructure investment is projected to fall from 7,3 percent in 2013/14 to 6,2 percent by 2016/17.

Gross Fixed Capital formation is expected to increase by 4,2 percent in 2014 and 5,3 percent in 2015.

Details of investment in the residential, non-residential and civil works sectors are provided in the table below, as published by the South African Reserve Bank.

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

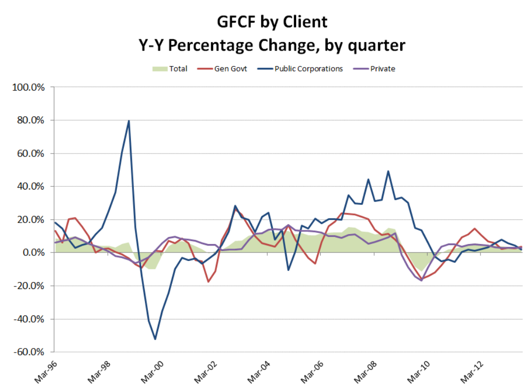
	Residential		*Non-res*		*Total building*		*Construction works*		*Total (Building + Construction Works*	
	Current prices	2005 prices[1]	Current prices	2005 Prices	Current prices	2005 Prices	Current prices	2005 Prices	Current prices	2005 Prices
Mar-10	9180	25071	14127	35932	23307	61003	40626	105899	63933	166902
Jun-10	9616	24389	13695	35358	23311	59747	38505	101901	61816	161648
Sep-10	9427	23135	13468	35839	22895	58974	38304	100979	61199	159953
Dec-10	9243	23229	13741	35047	22984	58276	39282	101225	62266	159501
Mar-11	8786	23096	14995	36914	23781	60010	40608	101915	64389	161925
Jun-11	9415	22878	14591	35955	24006	58833	40683	104289	64689	163122
Sep-11	9799	22714	14728	36596	24527	59310	41763	103431	66290	162741
Dec-11	9715	22920	15572	36655	25287	59575	43300	103005	68587	162580
Mar-12	9639	23724	16097	36981	25736	60705	44195	104349	69931	165054
Jun-12	10153	23248	16221	37292	26374	60540	42529	101943	68903	162483
Sep-12	10552	23310	15740	36443	26292	59753	43306	102524	69598	162277
Dec-12	10349	23094	16495	36680	26844	59774	45063	103056	71907	162830
Mar-13	9920	22932	17609	37204	27529	60136	45403	103370	72932	163506
Jun-13	10454	22507	17111	37241	27565	59748	45509	104059	73074	163807
Sep-13	10721	22343	17312	37022	28033	59365	47169	104746	75202	164111

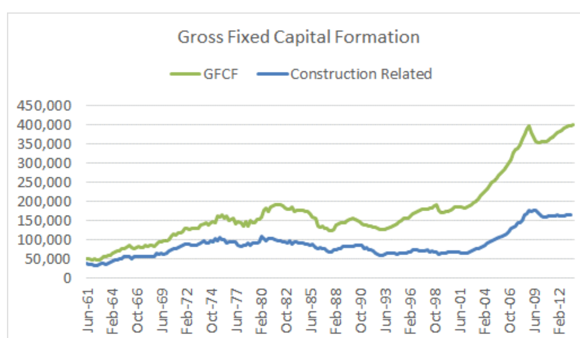
Source: SARB Quarterly Bulletin

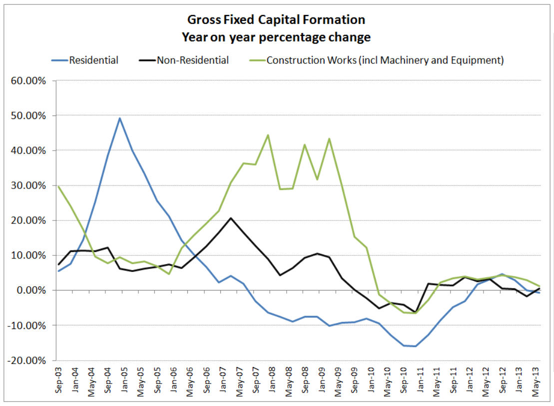
[1] Seasonally adjusted annualised rates

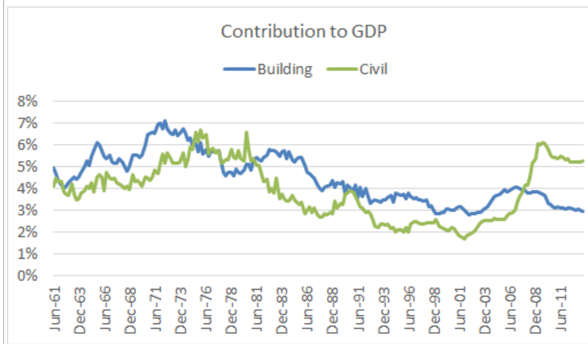
Table 5: Gross Fixed Capital Formation (Residential, Non-residential and Construction Works) Y-Y Real Percentage Change

Y-o-Y Percentage Change	*Residential*	*Non-Residential*	*Building*	*Civil Works*	*Total Construction*	*Gross fixed capital formation*
Mar-10	-18.1%	-5.4%	-11.0%	-2.1%	-5.5%	-6.5%
Jun-10	-19.4%	-4.3%	-11.1%	-4.6%	-7.1%	-3.3%
Sep-10	-22.5%	-3.9%	-12.2%	-7.2%	-9.1%	-0.1%
Dec-10	-21.0%	-6.6%	-12.9%	-7.5%	-9.5%	2.0%
Mar-11	-7.9%	2.7%	-1.6%	-3.8%	-3.0%	2.5%
Jun-11	-6.2%	1.7%	-1.5%	2.3%	0.9%	3.7%
Sep-11	-1.8%	2.1%	0.6%	2.4%	1.7%	5.0%
Dec-11	-1.3%	4.6%	2.2%	1.8%	1.9%	5.6%
Mar-12	2.7%	0.2%	1.2%	2.4%	1.9%	5.0%
Jun-12	1.6%	3.7%	2.9%	-2.2%	-0.4%	4.6%
Sep-12	2.6%	-0.4%	0.7%	-0.9%	-0.3%	4.3%
Dec-12	0.8%	0.1%	0.3%	0.0%	0.2%	3.9%
Mar-13	-3.3%	0.6%	-0.9%	-0.9%	-0.9%	3.5%
Jun-13	-3.2%	-0.1%	-1.3%	2.1%	0.8%	3.3%
Sep-13	-4.1%	1.6%	-0.6%	2.2%	1.1%	2.9%

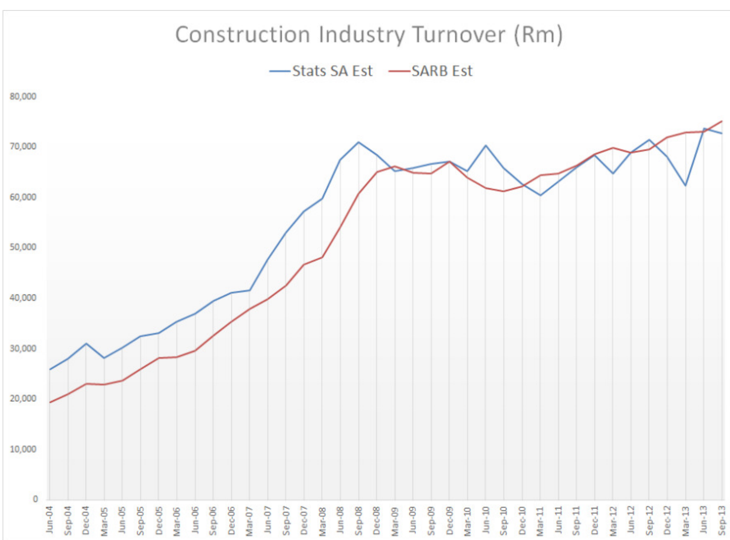








Investment growth in construction remained low, increasing by 1,1 percent in real terms (seasonally adjusted annualised rates) in the 3rd quarter of 2013. Investment growth in the building industry recorded negative growth for the last three quarters (down 0.6 percent in Q3) due to an acceleration in the contraction of investment in residential buildings. Investment in civil works increased by 2,2 percent, on par with growth reported during the 2nd quarter. Overall there hasn't been any excitement in terms of performance in the industry since the 2nd quarter of 2011, with growth averaging less than 1 percent since then.



According to data released by Stats SA investment growth may have been weaker for the 3rd quarter. Stats SA reported a nominal increase of only 1,7 percent (y-y) in construction industry turnover during the 3rd quarter compared to an increase of 8,1 percent as reported by the SARB. In real terms this means investment growth may have been negative in the 3rd quarter. SARB regularly updates their estimates based on Stats SA data, which means downward revisions could follow.

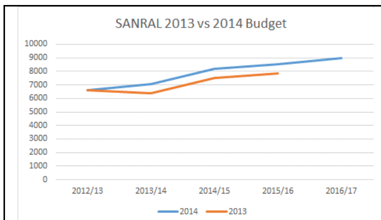
Highlights:

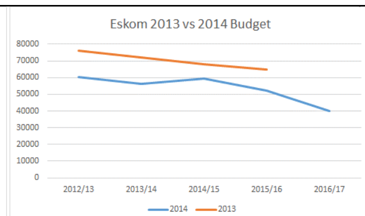
- Sephaku Cement launched their first bag of cement in the northern parts of the country, while there are reports of a sixth player hoping to enter the cement manufacturing industry. Mamba cement recently secured finance from Nedbank putting into motion the potential construction of a 1mt/yr cement factory in Koedoeskop, Limpopo.

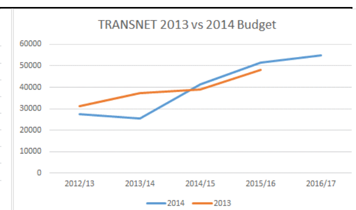
- At Coega, the R100bn oil refinery project is still being scrutinised with no final decision as yet (E-lib 18905)
- The multi billion rand Mega Waterfall state is being pushed ahead by developers and should support investment in the area in the next few years
- The first supply of renewable energy from independent power producers to the national grid took place in the 4th quarter of 2013, as the Jeffreys Bay wind farm started supplying electricity to the national grid. A 75 MW solar plant in Kalbut (Northern Cape) was also connected to the grid in September 2013.
  - Of a total 224 renewable energy bids, 64 have been accepted for procurement including nearly 4 000 MW of electricity. Contracts for 47 renewable energy projects were concluded in 2012 and 2013, most of which are under construction, expected to add generation capacity of 2450 MW between 2014 and 2016. The third procurement round will include a further 17 projects with 1457 MW capacity.
- In Cookhouse, Eastern Cape, Africa's largest wind farm (135 MW) will be fully commissioned by May 2014.
- President Zuma announced that government has spent over R1 trillion rand on infrastructure over the past five years, with most projects completed or nearing completion. Zuma also reported that the spending of government R827 billion infrastructure programme is "well on track", according to PICC's quarterly progress reports.
- The Consulting Engineering industry is lobbying for a new municipal maintenance fund to support municipal infrastructure and also appealed to government to include greater participation by the private sector engineering consultants in infrastructure planning.
- The new Infrastructure Development Bill was introduced in October 2013 by Minister of Economic Development, Ebrahim Patel, to overcome delays, bottlenecks and shortcomings in the integrated planning and implementation of infrastructure projects.
  - It is questioned however whether or not this (additional) legislation will not lead to over centralisation while it is a fear that it could over regulate private sector projects. However, the act aims to streamline the implementation of the identified strategic integrated projects most of which will require government finance or support in one way or another. It is therefore clearly intended to facilitate the development of public infrastructure. Amendments to the bill were introduced in February 2014, following the process of public consultation. Patel told the economic development portfolio committee that his department had taken into account the 30 submissions made in public hearings this month and incorporated them into five criteria for proposed amendments. Changes were made to strengthen the bill's constitutionality, reduce ambiguity and ensure that public consultations are carried out correctly. According to Patel, the bill came about because of the large infrastructure projects that the government was undertaking. "The government spends a lot of money on infrastructure and we want to get the best value we can for it," he said. Patel also proposed that the Presidential Infrastructure Co-ordinating Commission (PICC) be renamed a council,l since it includes the president, cabinet ministers, provincial premiers and mayors of metropolitan municipalities. The bill will give legal standing to the PICC which will designate strategic infrastructure projects (SIPs) and appoint steering committees to manage them. The PICC and its structures will not have their own budgets. Instead they will be funded

out of the departmental budgets or the budgets of the state-owned companies responsible for managing a project.

- The notion of centralized procurement has been coming for some time, with the announcement that the state will centralize procurement through a central tender board. Kenneth Brown was appointed a Chief Procurement Officer in 2013 to 'streamline" procurement and prevent corruption in the supply chain system in government. This will entail the establishment of a central tender board to adjudicate tenders in all spheres of government. Mr Brown started his career in National Treasury in 1998 as Deputy Director: Financial Planning. Brown holds a Master Degree in Economics from the University of Illinois, and a BA with Honours in Economics from the University in Western Cape South Africa.
    - The industry supports the rationale behind centralized procurement but questions the practicalities of having to deal with thousands of tenders on a monthly basis. In the civil industry alone, there are over 300 tenders per month, not including tenders in the building industry. It is about finding the correct balance between curbing corruption without causing further delays in the awarding of contracts
- The costs associated to the delay in the final implementation of e-tolling has affected allocations to other state owned enterprise including Eskom and Transnet. SANRAL received an additional R5,8 bn in 2011/12 to deal with these delays, resulting in reduced allocations towards Eskom and Transnet in 2012/13 and 2013/14. So if you were wondering why projects were slow coming from Transnet it was probably because money had to be re-allocated to SANRAL. But Treasury makes up for this in the 2014/15 Budget with a substantial increase of R16bn to Transnet totaling R41.3 bn for the financial year.







THE POSITION OF THE CIVIL ENGINEERING INDUSTRY

Sample profile

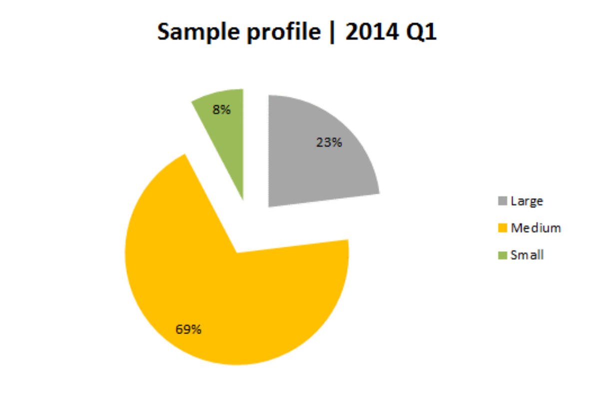


Figure 1: Sample profile 2014 Q1

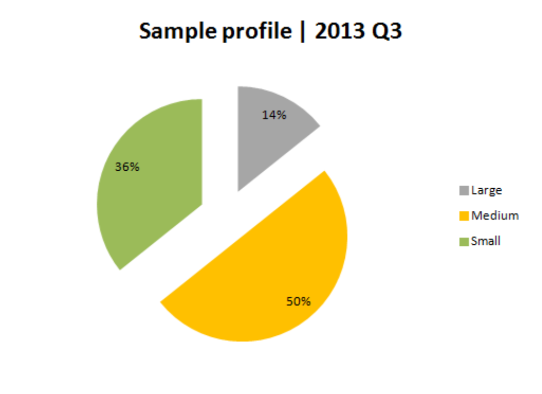


Figure 2: Sample profile 2013 Q3

- 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 is 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

- Turnover, or the nominal value of work certified for payment, increased by between 10 and 12 percent in the 4th quarter of 2013 compared to the 3rd quarter, but with high levels of deviation between the various firms. Categorised by employment size, larger firms reported an average increase of 18 percent, while turnover fell by 1 percent for medium size firms.
- Total turnover in 2013 is estimated at R38,9 bn, down 5 percent in nominal terms (or R2 bn) compared to the previous year (2012: R40,9bn).
- There was no real change in employment. Larger firms, as major job creators in the construction industry, are still either maintaining current employment levels or cutting back on employment. Medium size contractors in spite of lower turnover in the 4th quarter, increased employment by around 7 percent.
- The nominal value of salary and wages fell by an average of 4 percent in the 4th quarter of 2013 compared to the 3rd quarter, mainly due to the impact on the industry as larger firms seem to be shedding jobs. Medium firms increased their salaries and wage bill by an average of 18 percent. This was the first negative growth reported in salaries and wages since the 4th quarter of 2012. Salaries and wages increased by 19,0 percent q-q during the 3rd quarter, 6,5 percent in the 1st quarter and 17,9 percent during the 4th quarter of 2012.
- There was little change in the contribution of the salary and wage bill to turnover. On average 22 percent of turnover was spent on salary and wages, compared to an average of 23 percent in the 3rd quarter survey and 30 percent in the 2nd quarter survey. The ratio was similar between all firm size categories (large, medium and small).
- Contrary to previous reports, majority of contractors reported a decrease in the value of late payments.
- There is a broad base weakening in order books. The value of the two year forward order book fell by 19 percent with majority of contractors reporting a decrease across all size categories.

Table 6: Value of Civil Engineering construction certified for payment (q-q nominal change)

Survey period	*Large*	*Medium*	*Small*	*Total*
2013Q1	-10.	-22	-48	-14.0
2013Q2	40	52	16	40.0
2013 Q4	18	-1	92	12.0
Sample	23%	69%	8%	100.0%
% Turnover	74%	26%	1%	100.0%

In spite of a weakening in economic indicators during the 3rd quarter of 2013, turnover did not deteriorate in the 4th quarter. Nominal turnover however did contract on a quarter to quarter basis for majority of the participating medium size contractors, but increased for larger contractors, which resulted in an overall nominal increase of 12 percent in the 4th quarter of 2013. This follows an increase of 40,0 percent in the 2nd quarter and a 14,0 percent contraction reported in the 1st quarter. In real terms (adjusted for inflation), turnover fell by 10,1 percent in 2013 (or 5 percent in nominal terms) compared to an increase of 6,2 percent in 2012 and 7,6 percent in 2011. Annual turnover is estimated at R38,9 bn in current prices (not adjusted for inflation) for 2103 which means turnover fell by an estimated R2bn during 2013. Turnover was negatively affected by the slow implementation of government's infrastructure budgets, strike action during August and September last year and prevailing uncertain conditions in the mining sector.

Table 7: Salary and wage bill (nominal change q-q)

Survey period	*Large*	*Medium*	*Small*	*Total*
2013Q1	13.0	-9.0	-19.0	7.0
2013Q2	24.0	-7.0	12.0	19.0
2013 Q4	-6.0	18.0	96.0	-4.0
% salary / wage bill	91%	9%	0%	100%

The nominal value of the "two-year forward order book" for South Africa fell by an average of 19 percent in the 4th quarter compared to the 3rd quarter of 2013. This is the first negative report in the last four surveys. The value of order books improved by 15,9 percent in the 2nd quarter, and by 54 percent in the 1st 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, domestic conditions are under more pressure than before. However, any "forward looking" commentary is subject to the challenge of clients following through once projects have been awarded.

Table 8: Value of two year forward order book: Q-Q Nominal Change

Survey period	*Large*	*Medium*	*Total*
2013Q1	54%	55%	54%
2013Q2	-31%	17%	-14%
2013 Q4	-19%	-20%	-19%

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 an average of 6,8 percent of turnover, compared to 14,2 percent in Q3 and an average of 9 percent and 5 percent in the first two quarters survey. Thus irrespective of the exact contribution there was a tendency for late payments to increase as a percentage of turnover, except for the slight improvement reported in the 4th Quarter of 2013. If payments is a more serious problem respondents failed to highlight it.

National Election 2014

Alongside our BRICS partners, South Africa is also preparing for national Elections in 2014. History has shown that there is a tendency for tender activity to increase in the run up to elections, where after activity generally would fall by between 10 percent and 15 percent in the 12 months or so to follow. (Refer to the chart below).

In the past, budgets in election periods were prioritised towards those sectors that are sensitive to election votes (generally including social infrastructure), but the same approach wasn't followed in the 2014 Budget, which focussed more on priorities that would impact on South Africa's long term economic transformation.

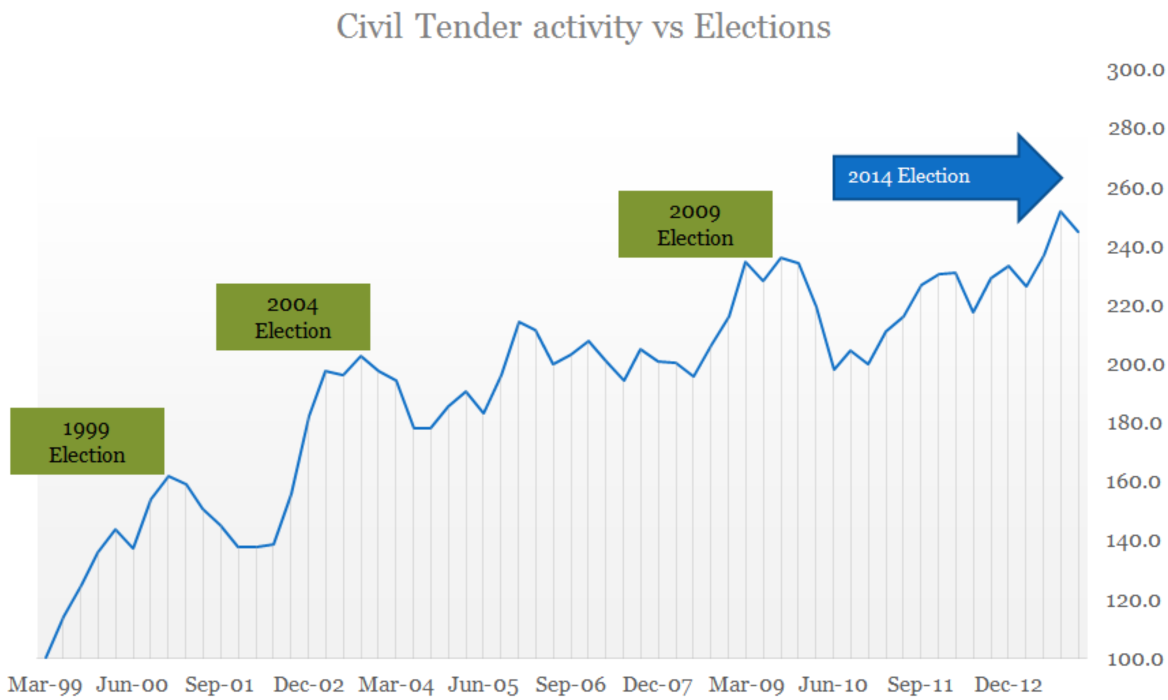


Figure 3: Civil Tender activity and election period

Industry Profile

The following section provides a snapshot view of turnover earned by project type, client and province during the 4th Quarter of 2013, surveyed in February 2014.

Table 9: Turnover distribution by sub-discipline

Discipline	*Large*	*Medium*	*Small*	*Total 2013Q4*	*Total 2013Q2*
Roads	34.4%	40.4%	15.9%	36.0%	39.5%
Earthworks	3.1%	9.5%	63.5%	5.9%	9.4%
Water Bulk Infrastructure	9.8%	8.6%	0.0%	9.3%	7.8%
Water and Sanitation	12.7%	10.8%	19.8%	12.2%	3.7%
Rail	0.0%	0.0%	0.0%	0.0%	1.0%
Harbours	0.0%	0.0%	0.0%	0.0%	4.1%
Power (bulk)	25.9%	18.5%	0.0%	23.2%	10.2%
Power (services)	0.0%	0.0%	0.0%	0.0%	0.0%
Airports	0.0%	0.4%	0.0%	0.1%	4.7%
Mining Infrastructure	5.5%	5.9%	0.0%	+	9.3%
Mining (Surface earthworks)	0.0%	1.1%	0.0%	0.4%	5.1%

The budget towards TCTA is projected to increase by 180% to R4,8 bn in 2014/15.

The Transport sector will be the main beneficiary of higher infrastructure expenditure in 2014/15.

Other	8.7%	4.8%	0.9%	7.4%	5.1%
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 earthworks, and water and sanitation.

In the 4th quarter of 2013 there was a shift between road and water projects, with a stronger increase in the value of water projects awarded (up 53%) compared to an annual 29% decrease in 3rd quarter. The value of road projects increased by 35% in the 3rd quarter but fell by 42% in the 4th quarter. Overall during 2013, the value of road projects increased by 24 percent compared to an increase of only 7 percent in the value of water projects awarded.

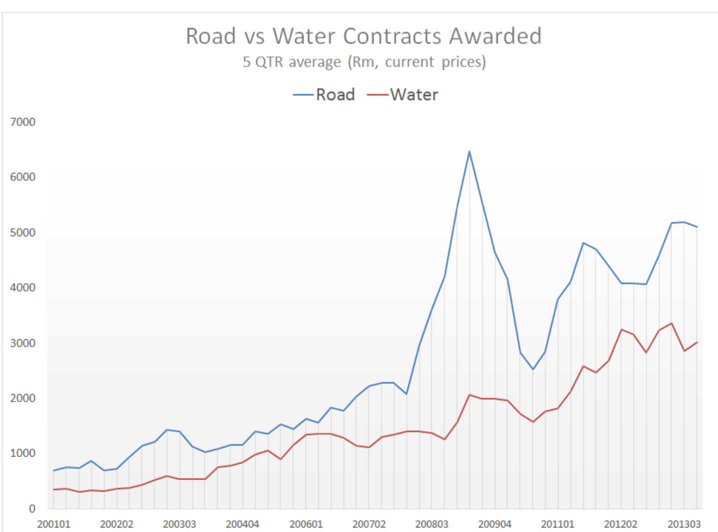
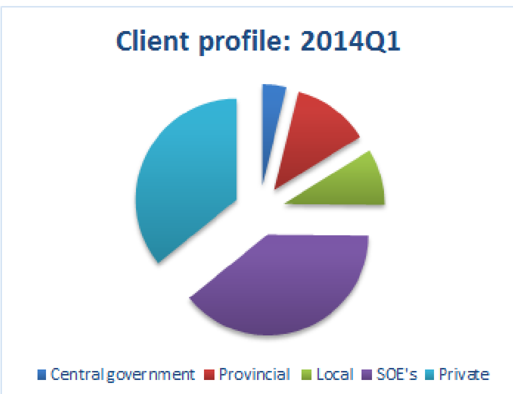
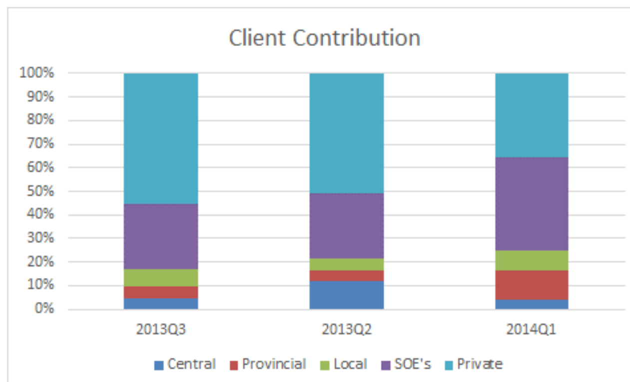


Table 10: Turnover distribution by client

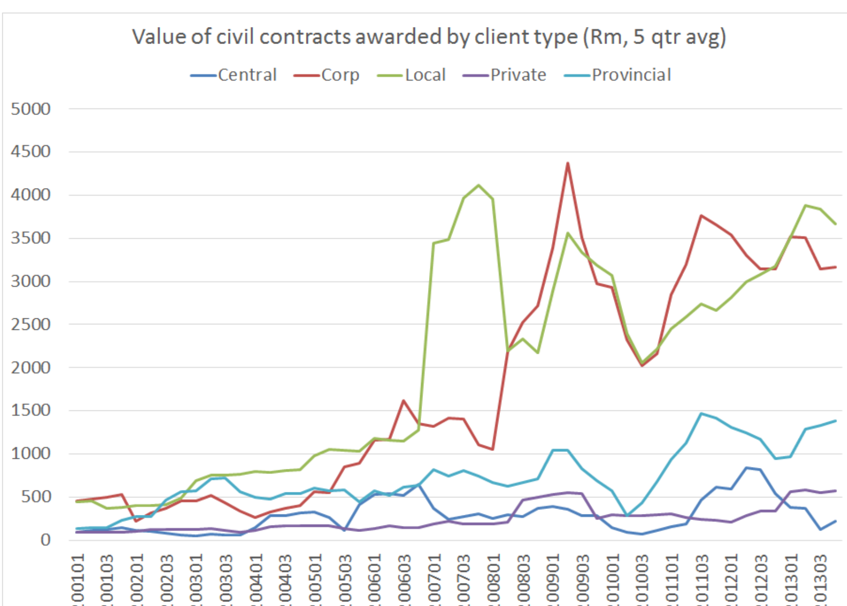
	Large	*Medium*	*Small*	*Total 2013Q4*	*Total 2013Q2*
Central	0.0%	6.6%	4.0%	2.1%	4.3%
Provincial	4.6%	10.5%	67.1%	7.3%	5.5%
Local	3.9%	18.5%	16.9%	8.6%	7.5%
Corporations	72.7%	29.4%	4.0%	58.3%	27.6%
Private	18.8%	35.0%	8.0%	23.7%	55.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Data for the third quarter not available





The contribution by the private sector moderated to 36 percent in the 4th quarter compared to 51 percent in the 2nd quarter of 2013 and 55 percent in the 1st quarter, mainly affected by a slowdown in mining activity. The role of central government moderated to 4 percent from 12 percent, SOE's contributed 39 percent to turnover in the current survey (compared to 28% in the previous survey). 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 equally active in the private sector and SOE's.

In the 2014 Budget SOE's is projected to contribute 49% of total public infrastructure expenditure (including expenditure on non-construction items such as rail stock, turbines etc), falling to 46% by 2016/17. Local government contributed around 22% to infrastructure expenditure in 2013/14, with similar contributions predicted over the next three years. The third largest client is provincial government contributing 16% to public sector infrastructure.

Please refer to Annexure B for details on public sector infrastructure expenditure estimates.

Table 11: Geographic Distribution of the value of civil engineering construction work (turnover)

Province	*Large*	*Medium*	*Small*	*Total 2013Q4*	*2013Q2*	*2013Q3*
GAU	26%	27%	0%	26%	16%	8%
WC	2%	14%	72%	7%	5%	10%
EC	3%	1%	16%	2%	13%	5%
NC	15%	1%	12%	10%	8%	4%
MPU	20%	13%	0%	17%	27%	37%
FS	8%	1%	0%	6%	8%	7%
LIM	16%	6%	0%	12%	10%	15%
NW	0%	7%	0%	2%	10%	6%
KZN	10%	31%	0%	17%	4%	7%
Total	100%	100%	100%	100%	100%	100%

Over 60 percent of turnover by larger firms was generated in three provinces (Gauteng, Mpumalanga and Limpopo, linked to the mining and power sectors, while medium size firms were more active in Gauteng and Kwazulu Natal.

In order to fill the void in the regional sample, a comparison between survey results and an independent database of domestic civil contracts awarded over the last four quarters, is included in the next section. 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. A breakdown by province is also provided.

Table 12: Provincial distribution of civil contracts awarded, by quarter

	2012 Q3	*2012 Q4*	*2013Q1*	*2013Q2*	*2013Q3*	*2013Q4*	*2013*	*2012*	*2011*
EC	12%	20%	9%	13%	17%	12%	12%	13%	13%
FS	10%	9%	8%	3%	3%	12%	6%	7%	4%
GAU	15%	11%	23%	22%	18%	17%	20%	14%	13%
KZN	19%	23%	23%	14%	25%	38%	24%	18%	18%
LIM	4%	5%	3%	4%	3%	3%	3%	9%	15%
MPU	9%	8%	14%	14%	6%	1%	10%	13%	14%
NW	11%	9%	5%	11%	1%	2%	5%	6%	4%
NC	11%	7%	4%	5%	1%	2%	3%	8%	6%

WC	10%	9%	11%	14%	26%	14%	15%	12%	12%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	13%
Rm (Nominal)	R7,3bn	R8,5bn	R11,6bn	R10,4bn	R7,2bn	R7,4bn	R36bn	R33bn	R36bn

Source Industry Insight time-series project database

Table 13: Value (nominal) of civil contracts awarded: Q-Q change (same qtr previous year)

	2012 Q3	*2012 Q4*	*2013 Q1*	*2013 Q2*	*2013 Q2*	*2013 Q4*	*2013 vs 2012*	*2012 vs 2011*	2011 vs 2010
EC	-3%	77%	85%	35%	41%	-49%	7%	-9%	51%
FS	28%	545%	40%	17%	-67%	16%	-5%	56%	-20%
GAU	-29%	38%	9%	77%	20%	34%	55%	6%	2%
KZN	-18%	-20%	202%[2]	-25%	30%	44%	42%	-5%	90%
LIM	-82%	-56%	8%	-74%	-34%	-47%	-59%	-45%	58%
MPU	-60%	10%	12%	-3%	-42%	-91%	-18%	-11%	111%
NW	193%	102%	420%	445%	-92%	-80%	1%	43%	73%
NC	-4%	154%	155%	-44%	-88%	-75%	-52%	15%	28%
WC	-52%	-38%	9%	21%	173%	41%	46%	-12%	57%
TOTAL	-31%	13%	72%	3%	-2%	-14%	10%	-6%	48%

Based on the contracts that have been awarded in the last six months we have some idea of what to expect in the next 6 months. Conditions were better in the first half of 2013, following a year on year increase of 72 percent and 3 percent in Q1 and Q2, where after the value of awards fell by 2 percent and 14 percent in Q3 and Q4 respectively. Overall the value of awards showed some improvement in 2013 (thanks to the first six months of 2013), up 10 percent compared to a 6 percent decline in 2012, but in real terms, allowing for construction input cost inflation of between 6 and 7 percent, this translates to only marginal growth of between 2 and 3 percent. The weaker performance in the last six months of 2013 may have a negative impact on the industry turnover in the first half of 2014.

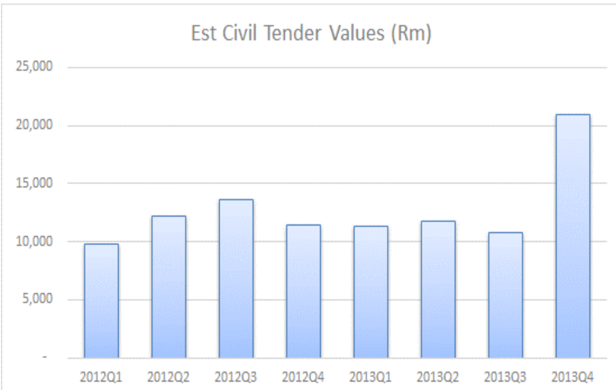
The 10 percent nominal growth in the value of civil contracts awarded is mainly attributed to an increase in Gauteng (up 55%), Kwazulu Natal (up 42%), Western Cape (up 46%), and a marginal increase from Eastern Cape (up 7%) and North West province (up 1%).

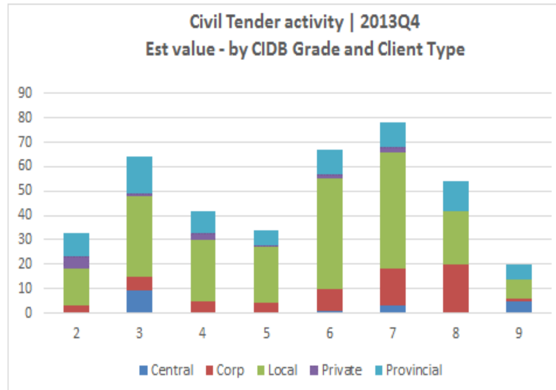
Provinces that reported negative growth during the year include Limpopo (down 59%), Northern Cape (down 52%), Mpumalanga (down 18%), and Free State (down 5%).

A provincial summary based on the real value of civil contracts awarded are included in **Annexure C.**

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

On the upside based on tender activity during the 4th quarter of 2013, estimated tender values increased substantially as an increasing number CIDB of grade 7 and grade 8 projects were put out to tender, compared to previous quarters. During the 4th quarter, Grade 7 and 8 contracts contributed over 30 percent of all tender activity, compared to an average for the year (2013) of 18





percent.

Table 14: Est tender values, by quarter (Rm)

	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
2013Q3	18	102	205	334	0	5,676	4,403	10,738
2013Q4	33	353	302	90	286	14,287	5,549	20,901

Table 15: Tender activity by CIDB grade and project type: 2013 Q4

Project Type	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Grand Total*
Air		1	1					1	3
Bridges	4	1	1	2	2	2	2		14
Civil Other	6	5		5	3	4	1		24
Power	4	14	5	4	4	8	1		40
Rail	1					1	2		4
Road	8	**30**	**23**	**14**	22	24	**30**	**18**	169
Water	**10**	15	12	9	**36**	**39**	18	1	140
Grand Total	33	66	42	34	67	78	54	20	394

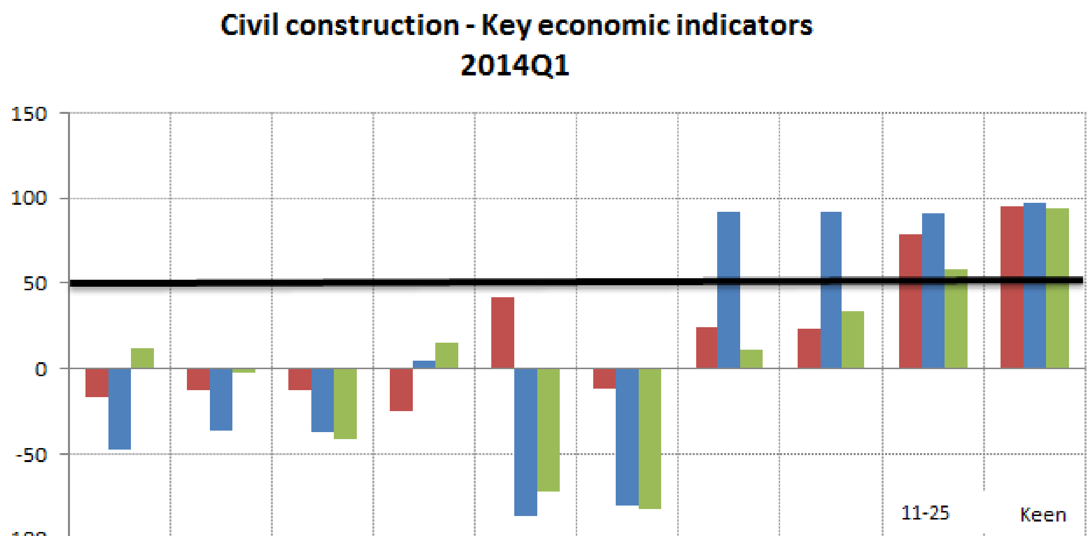
Economic Indicators

Economic indicators generally depict the “opinions” of respondents related to work conditions, tempo of work activity, and competition for tenders, profitability and prices.

- Conditions in the previous quarter (4th quarter 2013) were slightly better than originally expected, but the contractors remained cautious on conditions in the current quarter, an increasing percentage are concerned about conditions in the 2nd quarter of 2014.
- The nett % satisfied with working conditions during the 4th quarter, improved to 12.4 from -47 percent in the previous survey. A positive rate implies more firms reported improved business conditions, while a negative rate implies a growing number of firms have a more pessimistic outlook on the industry.
- The nett % satisfied with working conditions in the 1st quarter of 2014 also improved (albeit still negative) to -2.4 percent from -36.6 percent in the previous survey. The outlook however for the 2nd quarter deteriorated to a negative -41.2 percent from -37.5 percent.
- Respondents were more optimistic regarding profitability. The nett % satisfaction rate improved to 15 percent compared to 4,8 percent in the previous survey. 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 moderated somewhat as an increasing number of contractors reported competition of between 5 and 10 tenders, while an increasing number of firms reported keener tender prices
- In converse to the previous survey, respondents were less satisfied with the status of order books and turnover. The nett % satisfaction rate fell to 11 percent (from 91 percent) in terms of order books and to 34 percent (91.6 percent) in terms of turnover. Order books are negatively affected by a slow uptake in new mining developments, delays in affordable housing, poor implementation of government’s infrastructure programme, while projects are

broken into smaller projects, benefitting Grade 7 and 8 contractors more so than Grade 9 contractors.

- Because of the weighting of the indices, the growing dissatisfaction amongst larger contractors will impact on the industry's weighted response. Close to 90 percent of medium size contractors were satisfied with working conditions during the current as well as with expected working conditions in the next quarter, while 50 percent said they were busy to very busy. None of the larger contractors however agreed with this statement.



	Past QTR	Current QTR	Next QTR	Profitability	Tender activity	Awards	Order books	Turnover	Competition:	Tender prices
2013Q2	-17.1	-13.1	-13	-25.4	41.7	-12.1	24.3	23.7	79	95
2013Q3	-47.2	-36.6	-37.5	4.8	-86.2	-80.5	91.9	91.6	91	97
2014Q1	12.4	-2.4	-41.2	15	-72	-82	11	34	58	94

Figure 4: Key economic indicators Summary

Tempo of civil engineering work

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 much busier 4th quarter and were also more optimistic about working conditions in the 1st quarter and 2nd quarters of 2014.

The (weighted) response rate therefore (i.e satisfaction rate), moderated from 71 percent for current working conditions to 67 percent looking forward to the 2nd quarter of 2014, depicting potential further weakening in the industry.

The indicators below reflect actual figures compiled for the period ending December 2013, depicting conditions in the 4th quarter 2013 and an outlook for the 1st and 2nd quarters of 2014, split by firm size.

Table 16: Tempo of civil engineering work: PREVIOUS QUARTER (October – December 2013)

	Large	*Medium*	*Small*	*Industry avg weighted*
1. Very Quiet	0.0%	14.3%	33.3%	0.05%
2. Quiet	0.0%	14.3%	0.0%	4.96%
3. Satisfactory	75.0%	14.3%	66.7%	64.84%
4. Quite Busy	0.0%	57.1%	0.0%	8.41%
5. Very busy	25.0%	0.0%	0.0%	21.74%
Total	100.0%	100.0%	100.0%	100.0%
% Satisfied (3+4+5) Q2 2013	75.0%	88.9%	75.0%	59%
Q3 2013	50.0%	50.0%	80.0%	48%
Q1 2014	100.0%	71.4%	66.7%	95%

Table 17: Tempo of civil engineering work: CURRENT QUARTER (Jan-March 2014)

	Large	*Medium*	*Small*	*Industry weighted avg*
1. Very Quiet	0.0%	28.6%	33.3%	5.0%
2. Quiet	25.0%	0.0%	0.0%	41.6%
3. Satisfactory	50.0%	0.0%	33.3%	19.1%
4. Quite Busy	25.0%	71.4%	33.3%	34.3%
5. Very busy	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%
% Satisfied (3+4+5)				
Q2 2013	75%	89%	75%	63%
Q3 2013	50. %	71 %	60 %	56%
Q1 2014	75%	71%	67%	53%

Table 18: Tempo of civil engineering work: NEXT QUARTER (Apr-Jun'14))

	Large	*Medium*	*Small*	*Industry weighted avg*
1. Very Quiet	0.0%	0.0%	33.3%	0%
2. Quiet	25.0%	50.0%	66.7%	46%
3. Satisfactory	75.0%	0.0%	0.0%	48%
4. Quite Busy	0.0%	16.7%	0.0%	6%
5. Very busy	0.0%	33.3%	0.0%	1%
Total	100.0%	100.0%	100.0%	100.0%
% Satisfied (3+4+5)				
Q2 2013	75.0%	88.9%	50.0%	62%
Q3 2013	50.0%	66.7%	80.0%	52%
Q1 2014	75.0%	50.0%	0.0%	48%

Competition for tenders and Prices

Medium size contractors are experiencing tougher tendering conditions, with an increasing percentage of firms reporting tender competition in excess of 11 bids per tender. Competition has always been difficult amongst larger contractors, while only 33 percent of the smaller more specialised contractors reported tougher tendering conditions.

Table 19: Competition for tenders current quarter (October – December 2013)

	Large	*Medium*	*Small*	*Industry weighted avg Prev QTR*	*Industry weighted avg Current QTR*
Up to 5	0.0%	0.0%	33.3%	0.7%	0.0%
5 – 10	33.3%	42.9%	33.3%	8.0%	53.0%
11 – 25	66.7%	28.6%	0.0%	49.9%	19.3%
> 25	0.0%	28.6%	33.3%	41.4%	6.0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
>11 2013 Q2	75.0%	33.3%	75.0%	79%	
2013Q3	100.0%	20.0%	60.0%	89%	
2014 Q1	66.7%	57.1%	33.3%	25%	

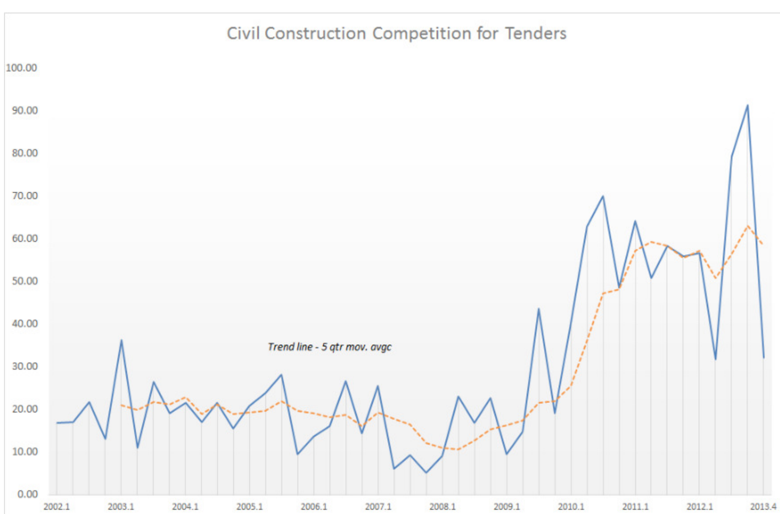


Figure 5: Competition for tenders

Majority of respondents reported keen tender prices, with a small increase in those saying tender prices are returning to reasonable levels from 1 percent in the previous survey to 7 percent in the current survey.

Table 20: Tender prices in the current quarter (Oct-Dec'13)

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
1. Very Low	0.0%	30.0%	50.0%	3%	6%
2. Keen	100.0%	50.0%	0.0%	97%	87%
3. Reasonable	0.0%	20.0%	50.0%	1%	7%
4. Good	0.0%	0.0%	0.0%	0%	0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%

Profitability

Opinions related to profitability continued to improve. There was a further improvement in the nett satisfaction rate to a positive 15,4 percent from 4,8 percent in the previous survey. Margins are returning to "normal", 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.

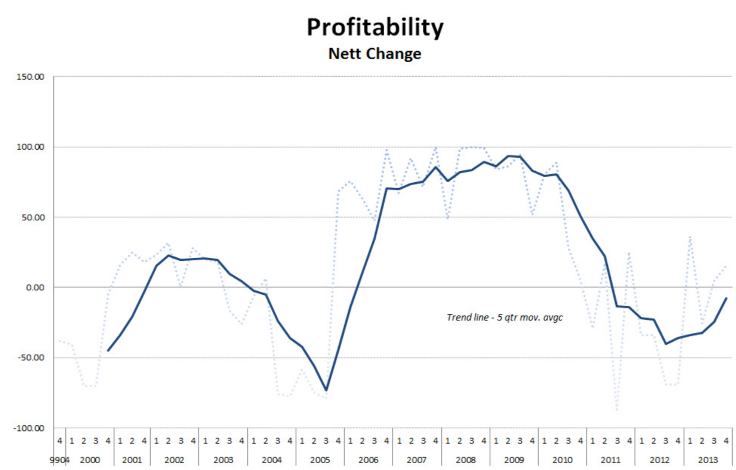
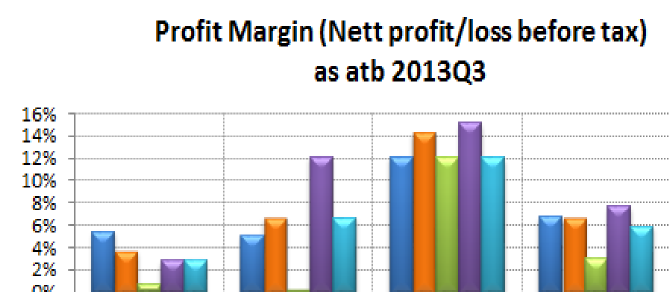


Table 21: Profitability

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
1. Very Low	0.0%	10.0%	0.0%	0%	0%
2. Low	33.3%	60.0%	0.0%	48%	42%
3. Satisfactory	66.7%	30.0%	100.0%	52%	58%
4. High	0.0%	0.0%	0.0%	0%	0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Nett satisfaction rate (3+4)-(1+2) Q2	0.0	33.3	-50.0	-25.4	
Q3	0.0	33.3	-20.0	4.8	
2014 Q1	33.3	-40.0	100.0	15.3	



	> R169 million Large	R39 million to R169 million Medium	R2 million to R39 million Small	Total
2012Q3	5%	5%	12%	7%
2012Q4	3.7%	6.7%	14.4%	6.7%
2013Q1	0.8%	0.2%	12.1%	3.0%
2013Q2	2.9%	12.1%	15.1%	7.7%
2013Q3	2.9%	6.7%	12.1%	5.9%

Figure 6: Profit Margin (Source Statistics South Africa, P0044)

According to Stats SA nett profit before tax as a percentage of turnover for construction (including civil and building sectors) fell from 7,0 percent in 2013Q2 to 5,9 percent in Q3, with the lowest margins experienced by the larger enterprises (2,9 percent), followed by medium (6,7 percent) and small enterprises reporting the highest margins of 12,1 percent. Please note the Stats SA definition of enterprises is in this case based on average annual turnover and not the number of employees.

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

Capacity Utilisation and Plant equipment

An increasing number of medium and smaller companies are operating at more than 90 percent capacity levels, while larger firms are mostly operating at between 76 and 90 percent capacity.

Majority of contractors reported that less than 25 percent of their plant is standing idle (75 percent) compared to 97,2 percent in the previous survey. Medium size contractors are spending almost an equal amount on the hire and leasing of plant equipment compared to larger contractors according to estimates provided by Stats SA. Larger firms however increased expenditure by 26 percent in the 3rd quarter, compared to an increase of 17 percent by medium size enterprises. According to Stats SA approximately 3 percent of turnover was spent on hiring and leasing of plant equipment during the 3rd quarter of 2013, increasing by an average of 20 percent y-y over the last few quarters.

Table 22: Capacity Utilisation in terms of general plant and resources for the current quarter (October – December 2013)

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
0-25%	0.0%	0.0%	33.3%	0.0%	0.0%
26-50%	0.0%	0.0%	0.0%	0.0%	0.0%
51-75%	0.0%	40.0%	33.3%	6.5%	10.4%
76-90%	100.0%	30.0%	0.0%	91.9%	83.1%
91-100%	0.0%	30.0%	33.3%	1.5%	6.5%
>100%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Operating at more than 90% Capacity Q2	25.0	33.3	0.0	47.9	
Q3	0.0	16.7	25.0	1.5	
2014Q1	0.0	30.0	33.3	6.5	

Table 23: Percentage of plant standing idle during the current quarter

	Large	Medium	Small	Industry weighted average Prev QTR	Industry weighted average Current QTR
0-25%	66.7%	60.0%	50.0%	97.2%	75.7%
26-50%	33.3%	20.0%	50.0%	0.0%	18.8%
51-75%	0.0%	10.0%	0.0%	2.7%	3.5%
76-90%	0.0%	0.0%	0.0%	0.0%	0.0%
91-100%	0.0%	10.0%	0.0%	0.0%	2.1%
>100%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Less than 50% idle Q2	100.0	88.9	75.0	96.0	
Q3	100.0	83.3	80.0	97.2	
2014Q1	100.0	80.0	100.0	94.4	

Medium size firms are spending a higher portion of their turnover on hire/leasing of plant equipment, from 5 percent in the 2nd quarter of 2012 to 6,3 percent in the 3rd quarter of 2013, compared to larger enterprise that spent 2,5 percent of turnover on plant equipment. Larger companies would generally require less expenditure on plant equipment as they have the ability to own a large portion of their plant equipment, while it made better economic sense for medium and smaller companies to either hire or lease equipment as demand dictates. It does however mean that the expected increase in the cost of plant and equipment in 2014 could have a more serious impact on the profitability of medium and smaller size contractors.

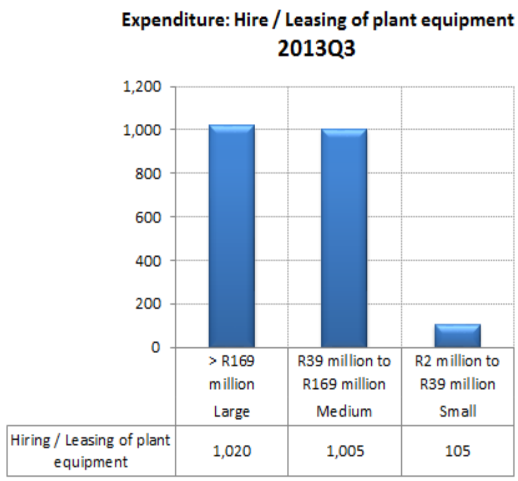


Figure 7: Hire / Leasing of plant equipment (Stats SA)

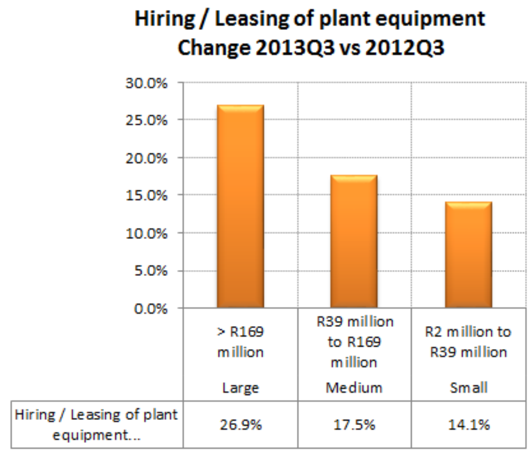


Figure 8: Change in Hire/leasing of plant equipment (Stats SA)

Table 24: Expenditure hire/leasing of plant equipment

	Large	*Medium*	*Small*	*Total*
	> R182 million	R42 million to R182 million	R2 million to R42 million	
Jun-12	900	758	51	1,709
Sep-12	804	855	92	1,751
Dec-12	935	875	76	1,886
Mar-13	863	972	58	1,893
Jun-13	1,159	865	99	2,123
Sep-13	1,020	1,005	105	2,130

Table 25 Expenditure hire/Leasing of plant equipment % of turnover

	Large	*Medium*	*Small*	*Total*
	> R182 million	R42 million to R182 million	R2 million to R42 million	
Jun-12	2.1%	5.1%	0.4%	2.5%
Sep-12	2.0%	5.1%	0.6%	2.5%
Dec-12	2.4%	6.0%	0.5%	2.8%
Mar-13	2.5%	6.3%	0.4%	3.0%
Jun-13	2.8%	5.2%	0.6%	2.9%
Sep-13	2.5%	6.3%	0.6%	2.9%

Opinions related to tenders, awards, order books and turnover

Tender activity

Explanatory note: 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 in which they can compete. 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.

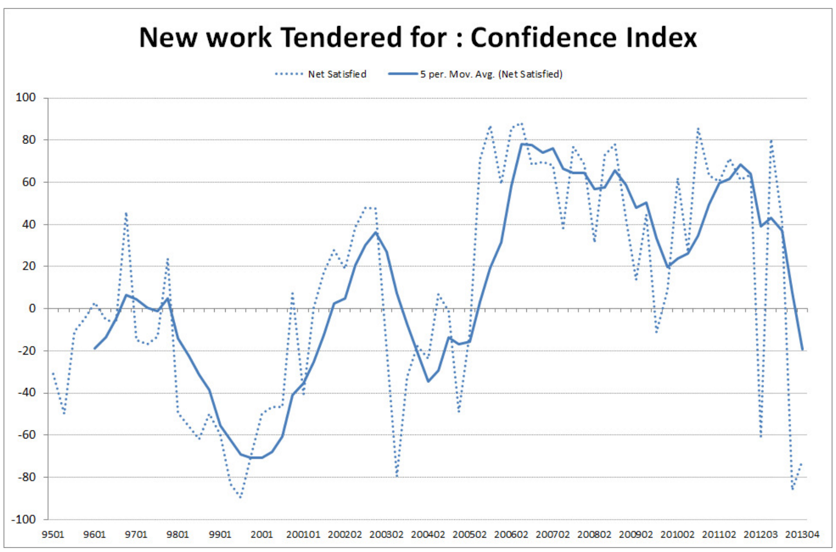


Figure 9: Opinions of new work tendered for: Confidence Index

Majority of firms reported their dissatisfaction with tender volumes. All the larger firms and between 40 and 50 percent of the medium and smaller firms reported low tender volumes. Medium size firms were a little more optimistic in the 1st quarter of 2014, improving the nett percentage satisfaction rate from 14.3 percent to 20.0, thereby improving the overall rate fr om -86.0 to -72.0. Please note in spite of the improvement amongst medium size contractors, the overall satisfaction rate incorporating the larger firms remained in negative territory, as more contractors are still reporting low tender volumes.

Opinions related to tender volumes showed a marginal improvement in the current survey. Opinions, based on a weighted average industry response improved from a nett satisfaction rate of -86.0 in the previous survey to -72.0 in the current survey. This uptick suggests there were an increasing number of respondents that did in fact believe that tender volumes have improved. However, the trend line suggests that confidence levels are still depressed, and we can only hope that the current improvement is sustained throughout the election period.

Table 26: Opinion of volume of tender invitations (October – December 2013)

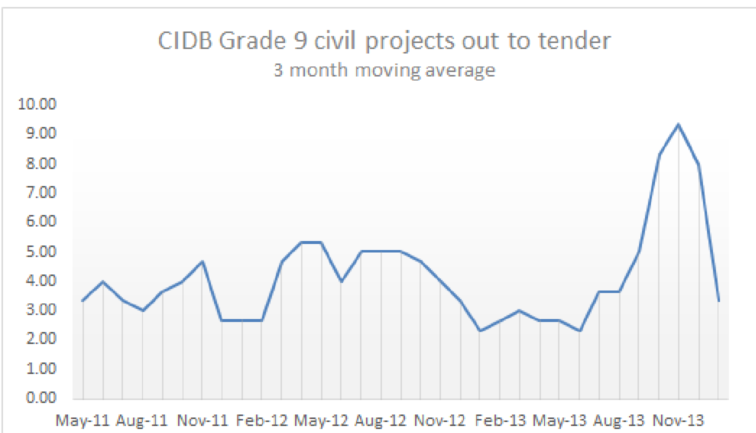
	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*		*Industry weighted average Current QTR*
1.Nil	0.0%	0.0%	0.0%	0.0%		0.0%
2.Low	100.0%	40.0%	50.0%	93.1%		86.0%
3.Satisfactory	0.0%	30.0%	0.0%	6.9%		8.8%
4.Good	0.0%	30.0%	50.0%	0.0%		5.2%
Total	100.00%	100.00%	100.00%	100.0%		100.0%
Nett % satisfied (3+4)-(1+2) Q2	50.0	-33.3	50.0	42.0		
Q3	-100.0	14.3	-20.0	-86.0		
2014Q1	-100.0	20.0	0.0	-72.0		

Opinions on tender volumes are supplemented by trends in the number of civil tenders published. Actual tender activity in the civil industry fell by 4,5 percent in the 4th quarter of 2013 compared to the same period in 2012, the first decline in four quarters (2012Q4 – 3,5 percent). Tender activity increased by 7 percent in 2013 compared to a 3 (revised) percent decrease in 2012.

Information on tender activity by CIDB grade is included for a better understanding of the scope of work available in South Africa.

Table 27: Civil Tender activity by known CIDB grade

Year, Quarter	2	3	4	5	6	7	8	9	Total
201201	101	211	146	95	92	72	28	14	759
201202	53	218	112	77	91	112	39	12	714
201203	91	261	170	120	130	123	43	15	953
201204	64	198	185	134	155	76	39	10	861
201301	98	246	123	97	106	59	31	9	769
201302	78	316	153	132	120	102	31	7	939
201303	85	239	188	152	173	109	30	15	991
201304	100	175	124	101	139	111	68	24	842



We would have expected larger contractors should have been more optimistic considering several Grade 9 road projects were put out to tender during the 4th quarter of 2013 (mainly during the month of October). Most of these projects were in Kwazulu Natal and Eastern Cape, issued by the mostly local government departments in the case of Kwazulu Natal and provincial government in Eastern Cape. However, medium size contractors are equally active in CIDB Grade 9 projects, maximising the full benefit of larger companies moving a greater percentage of turnover off shore. Contractors (other than the big six[3]) that are active in this market segment include for example Haw & Inglis, Roadcrete Africa, CMC Di Ravenna, Power construction, and Raubex.

The outlook for higher value projects should therefore improve considering the recent slump in tender activity although confidence is affected by the slow pace of awards. Normally less than 1 percent (0,65 percent) of the tenders issued relate to CIDB Grades 9 projects, but this increased to 2,8 percent in the 4th quarter of 2013. The estimated value of tenders (because of the higher profile of grade 7 and grade 8 projects) increased by around 80 percent y-y in the 4th quarter of 2013, fuelling hopes for a much better second half of 2014.

[3] Group Five, Aveng, Murray & Roberts, Stefanutti Stocks, Basil Read, WBHO

Table 28: 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	Y-Y Per. Change (Nominal)
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	16.1
2013Q2	24	107	1,023	578	184	5,153	4,658	11,726	-4.1
2013Q3	18	102	205	334	0	5,676	4,403	10,738	-21.0
2013Q4	33	353	302	90	286	14,287	5,549	20,901	83.3

Source: Industry Insight Project Database, Databuild

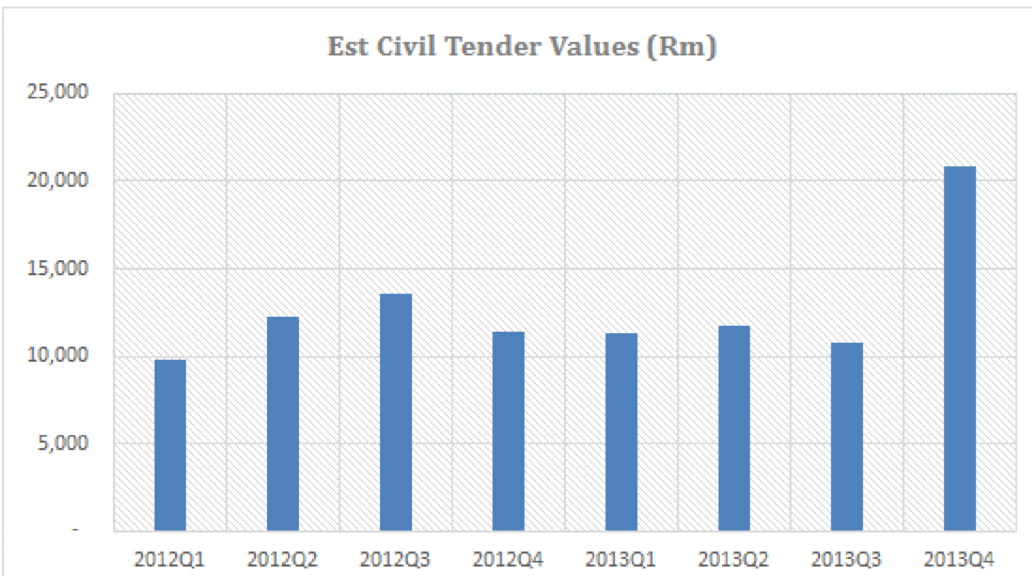
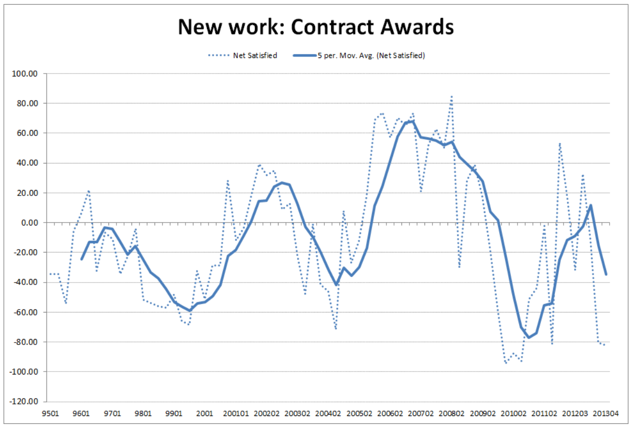


Figure 10: Estimated Civil Tender Values

Awards

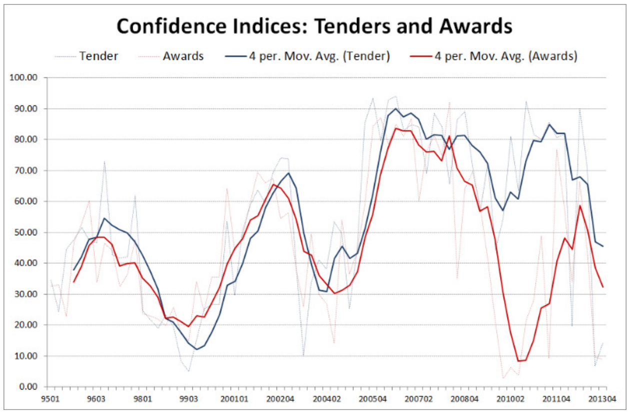


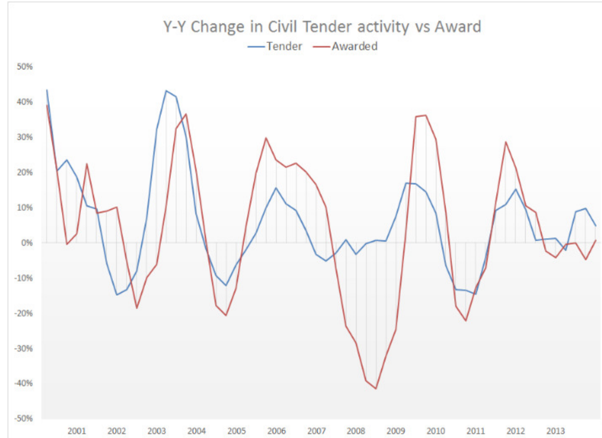
Pessimism towards the awarding of tenders continued in the 4th quarter of 2013. Firms were less optimistic regarding the value of contracts awarded during the current survey, from a nett satisfaction rate of -12.0 in 2013Q2 to -82.0 percent in the current survey. Large firms were unanimous in their views, that awarding of contracts was slow, while medium size firms are showing signs of greater optimism. The nett satisfaction rate of medium size contractors improved from -33.0 percent in the 2nd quarter of 2013 to 20.0 percent in the current survey.

Table 29: Opinion of the value of contracts awarded (October – December 2013)

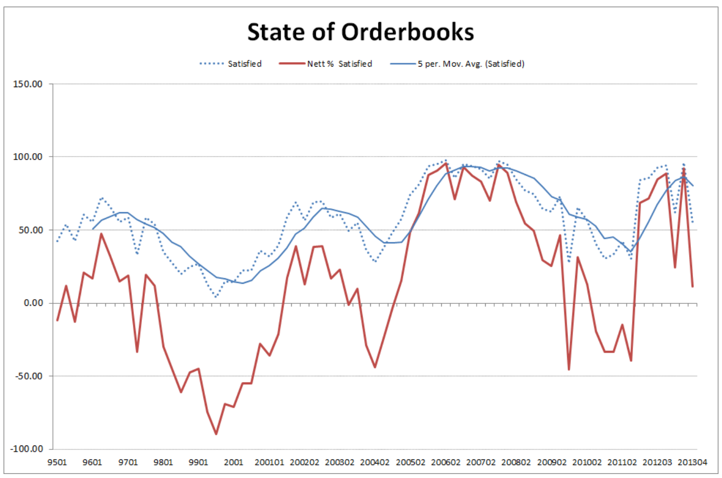
	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
1.Nil	0.0%	10.0%	0.0%	2.2%	1.5%
2.Low	100.0%	50.0%	100.0%	88.0%	89.5%
3.Satisfactory	0.0%	30.0%	0.0%	9.7%	7.2%
4.Good	0.0%	10.0%	0.0%	0.0%	1.8%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Nett % satisfied (3+4)-(1+2) Q2	50.0%	-33.3%	50.0%	-12.0%	
Q3	-100.0%	14.3%	-20.0%	-81.0%	
2014Q1	-100.0%	20.0%	-100.0%	-82.0%	

Again, opinions by contractors are supplemented by an independent database of contract awards. The number of civil contracts awarded fell by 10 percent year on year in the 4th quarter of 2013 compared to the same period in 2012, the third consecutive quarter reporting negative year on year growth, under pinning the opinions of contractors that awarding of contracts is being delayed. The value of projects awarded slumped by 19 percent year on year in the 4th quarter of 2013, following an 8 percent and 6 percent drop in the two preceding quarters. The value of awards has a ripple effect on future turnover.





State of Order books



The overall outlook for order books has deteriorated.

Opinions related to the order book are more erratic, but the trend line (solid blue line on the chart above) seems to be showing an upper turning point, suggesting opinions are becoming increasingly pessimistic. The nett % satisfaction rate deteriorated from a 92 percent in the previous survey to just 11 percent in the current survey

The nett satisfaction rate amongst medium size contractors is again more optimistic, although it has weakened to 40 percent from 42 percent in the previous survey. A total of 10 percent of the medium size respondents felt that the two year forward order book was in a "good" position.

The value of the two year forward order book nonetheless fell by 19,4 percent, affecting both large and medium size contractors.

Table 30: Opinion of forward order books (October – December 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	50.0%	30.0%	50.0%	4.0%	44.3%
Satisfactory	50.0%	60.0%	50.0%	89.6%	53.9%
Good	0.0%	10.0%	0.0%	6.4%	1.8%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Nett % satisfied (3+4)-(1+2) Q2	50.0%	55.6%	50.0%	24.0%	
Q3	100.0%	42.9%	-20.0%	92.0%	
2014Q1	0.0%	40.0%	0.0%	11.0%	

Turnover

Nominal turnover increased by between 10 and 12 percent q-q in the 4th quarter of 2013 , compared to an increase of 40 percent in the 2nd quarter. 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.

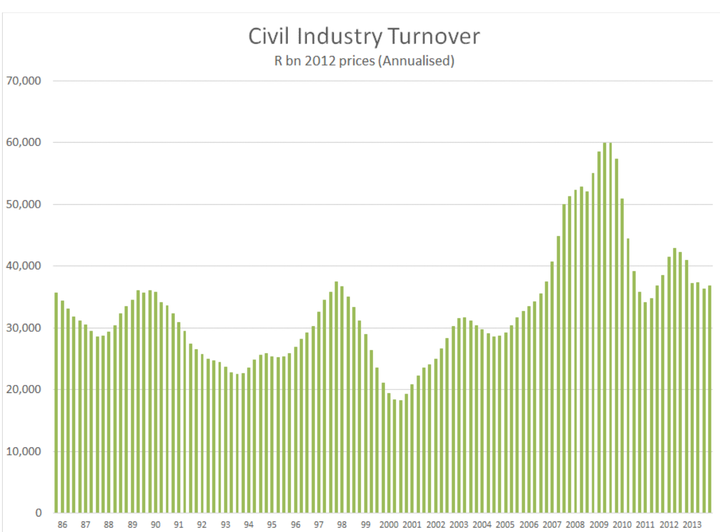


Figure 11: Civil Industry Turnover, 2012 prices

Turnover fell by 5 percent in nominal terms to R38,9 bn in 2013 (2012: R40,9 bn

Growth outlook 2014:

4,5 percent (real terms)

Firms were more divided in their opinions related to turnover in the 4th quarter of 2014. Although 53 percent were satisfied, larger firms were split, while 50 percent of medium size firms, in spite of all the other more promising trends shown in the indicators, experienced lower turnover during the survey period. The overall nett satisfaction rate deteriorated from 92 percent in the previous quarter to 34.0 percent in the current survey, although still an improvement on the 24 percent reported in the 2nd quarter of 2013.

Table 31: Opinion turnover (October – December 2013)

	Large	*Medium*	*Small*	*Industry weighted average Prev QTR*	*Industry weighted average Current QTR*
1. Nil	0.0%	0.0%	0.0%	0.0%	0.0%
2. Low	25.0%	50.0%	0.0%	4.2%	33.2%
3. Satisfactory	50.0%	50.0%	50.0%	90.6%	53.1%
4. Good	25.0%	0.0%	50.0%	5.2%	13.7%
Total	100.00%	100.00%	100.00%	100.0%	100.0%
Nett % satisfied (3+4)-(1+2) Q2	50.0%	77.8%	0.0%	24.0%	
Q3	100.0%	42.9%	-50.0%	92.0%	
2014Q1	50.0%	0.0%	100.0%	34.0%	

Nominal turnover fell by 5 percent in nominal terms in 2013 to R38,9 bn (2012: R40,9 bn). Allowing for an increase of 5,7 percent in construction costs (according to the CPAF indices), real turnover fell in by 10 percent, compared to an increase of 6 percent in 2012.

Price pressures are expected to accelerate in 2014, as currency volatility is expected to have an impact on the cost of plant and fuel, while consumer inflation is also expected to increase at a faster pace for the same reason. This will have a negative impact on the cost of labour in 2014. Should the industry grow by 13 percent in nominal terms, (or by between R4 and R5 bn in 2014), on the back of double digit growth which was predicted for government spending on infrastructure (excluding SOE's) in the 2014/15 Budget, higher construction costs will lower real growth to around 4,5 percent for 2014.

Table 32: 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%	17,366,815,461	7.6%
2012	40,952,061,358	11.0%	18,449,854,654	6.2%
2013*	38,920,982,014	-5.0%	16,589,220,665	-10.1%
2014*	43,980,709,676	13.0%	17,341,183,489	4.5%
2015 *	46,619,552,257	6.0%	17,523,026,214	1.0%

**Provisional Figures*

Table 33: Employment, Contract Awards, Turnover and Salaries and Wages

	Employment	Turnover (nominal)	Salaries and Wages (nominal)
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	96502 *	40,952,061,358	9,062,691,178
2013.1	81651 *	7,944,678,917	1,758,157,444
2013.2	112823 *	11,122,550,484	2,461,420,422
2013.3	93894 *	9,454,167,911	2,092,207,359
2013.4	93894 *	10,399,584,702	2,301,428,095
2013	95565	38,920,9982,014	8,613,213,320

r revised | * estimate

Companies showing increased revenue but mixed signals on operating profit.

According to interim financial results reported by Aveng, WBHO, M&R and Group Five for the 6 months to December 2013, major contractors have secured higher levels of revenue, amidst difficult trading conditions. Revenue increase for all of the major companies, including Group Five (up 57% to R7,7bn), Aveng (up 11% to R27,7 bn), WBHO (up 11,3% to R13.4bn) and M&R (up 16,5% to R19bn). However, all companies have reported on difficult trading conditions, both domestically and abroad. Companies don't report specifically on their South African revenue, but overall it would seem that revenue generated in the construction sector within South Africa (or Africa) has either stabilised or shown some improvement increasing by between 5% and 10%, except for mining where revenue is being negatively affected by continued uncertainty in the sector. Operating profit was a mixed bag, with 2 of the 4 companies reporting an increase in operating profit (Group Five and M&R) while Aveng and WBHO reported a decline in operating profit during the reporting period. However, profit margins remained under pressure, but showed signs of greater stability.

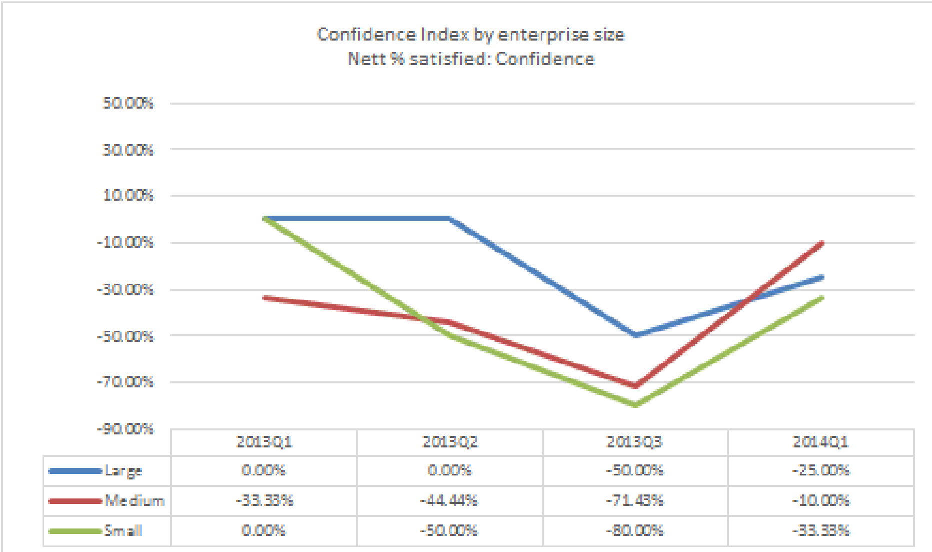
Conditions that aggravated market conditions include labour disruptions, uncertainty in the mining sector, and slow implementation of government projects. On the upside companies benefitted from some recovery in the building sector, momentum in the development of renewable energy projects, improved steel prices, with growing prospects for the oil and gas industries, transport and water. Although opportunities in the housing market remains elusive, WBHO has benefitted from an increase in activity in upper housing private sector projects and should also benefit from an increase in the development of mine housing. Building activity in Gauteng was boosted by the construction of additional shopping space and mixed use developments.

Confidence Index

Explanatory note: The civil engineering 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 after showing a definite downward trajectory, the trend has reversed.

None of the respondents were optimistic regarding work conditions during the 4th quarter, with less than 2 percent (within the medium size category) expecting conditions to improve in the 1st quarter of 2014. An increasing number of respondents are however reporting "satisfactory" conditions (more than 80%). As a result the confidence index (based on a nett percentage change), although still in negative territory, improved from -18 in the previous survey to -15. Below please find the start of a trend line showing the confidence index for the various firm sizes.



	2013Q1	2013Q2	2013Q3	2014Q1
Large	0.00%	0.00%	-50.00%	-25.00%
Medium	-33.33%	-44.44%	-71.43%	-10.00%
Small	0.00%	-50.00%	-80.00%	-33.33%

Nett Satisfaction Rate remained negative but improved from -18.0 in the previous survey to -15.0

Figure 12: Confidence by firm size category

The weaker overall business sentiment can be explained by the slower than expected implementation of government's infrastructure programme, slowdown in development of higher value projects affecting tender activity for larger firms, below average profit margins, rising costs of productions, labour issues, uncertainty in the mining sector, the upcoming 2014 elections, combined with a rather dismal outlook on economic growth. Majority of complaints received from respondents related to work flow representing 38 percent of total complaints, followed by lack of skills to implement and manage projects.

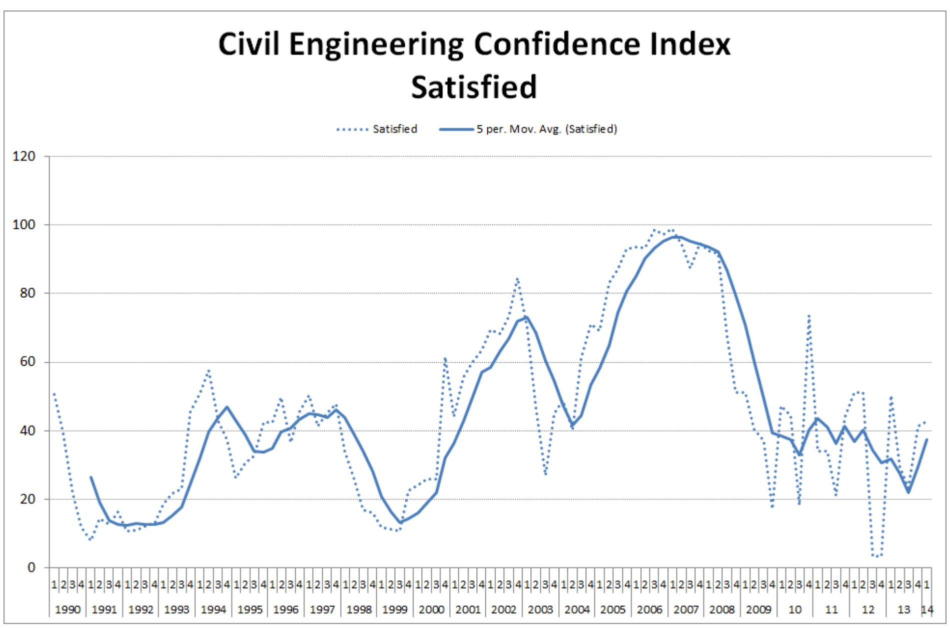


Figure 13: Civil Engineering confidence Index

PROSPECTS FOR 2014 and 2015

The outlook for 2014 is influenced by stronger growth in government spending particularly on transport where the strongest growth has been predicted, stable investment by SOE's while uncertainty in the mining sector could continue to deter private sector investment in this market segment. Based on current predictions, infrastructure spending will slow in years to come, lowering the growth outlook for 2015 to 6 percent in nominal terms.

Business cycle indicators may be less optimistic in general, but one cannot ignore the more improved outlook for medium size contractors. Although the industry experienced tougher business conditions in the 4th quarter of 2013 than expected, there seems to be some level of stabilisation settling in. Revenue generated by the established contractors showed a satisfactory improvement based on financials released in the last few months, although profit margins are still under pressure, and operating profitability depends largely on the operational strategies implemented by the various firms.

Issues of project delays, unfair tender adjudication, problems with unrealistic expectations at design phase, and implementation of budgets, continue to hamper the growth potential in the industry.

According to information released in the 2014/15 Budget, spending on infrastructure will remain a priority with stronger growth coming from infrastructure spending by government departments compared to SOE's. Real growth however will remain in single digit figures, as infrastructure spending by government is projected to increase by 5,7 percent in 2014/15, 3,8 percent in 2015/16, before contracting by 1,7 percent in 2016/17.

In order for growth to accelerate in 2014, government would either have to increase allocations available for infrastructure spending, improve actual expenditure of allocated budgets, or private sector investment would have to accelerate. Only one of the three scenarios is likely in our opinion. Government has increased allocations to infrastructure spending, but challenges on project implementation is likely to persist while private sector investment is unlikely to show a meaningful recovery in 2014 considering the outlook of poor economic growth, negative business sentiment, uncertainty and continued violent strike action in the mining sector. Opportunities are presented in the development of renewable energy, but the total percentage of investment that impacts on construction is marginal (estimated at between 10% and 15%). Turnover fell by R2bn in 2013, but should increase by at least R5bn in 2014 provided government successfully implements its infrastructure programme projected for 2014/15.

Challenges that continue to hamper growth potential in the industry, 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), proposed policy amendments and labour disruptions affecting the mining industry.

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.

CIVIL ENGINEERING PRICE MOVEMENTS

Input cost price movements based on the Baxter contract price adjustment formula (CPAF) averaged 6,1 percent in the fourth quarter of 2013, compared to 7,0 percent y/y increase during the 3rd quarter. On average input costs increased by an estimated 5,7 percent in 2013 compared to 4,5 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 7,2 percent y/y as at December 2013, while the plant index accelerated from 2,8% y/y in December 2012 to 8,2 percent in December 2013. The composite material index accelerated from an average increase of 2,7 percent in the 1st quarter of 2013 to 4,7 percent by the end of the year. Labour costs are understated in the CPAF, as actual wage increases are well in excess of inflation. Headline CPI is projected to exceed 6 percent in 2014 before settling back to between 5 and 5,5 percent on average by 2015. As expected, price pressures intensified during 2013, albeit at a slower pace than expected which has put pressure on input costs. This upward momentum in pricing is expected to continue throughout 2014 and may even accelerate due to the depreciating currency.

The composite index is expected to accelerate from an average increase of 5,7 percent in 2013 to 8,1 percent in 2014, easing to an average of 4,9 percent in 2015.

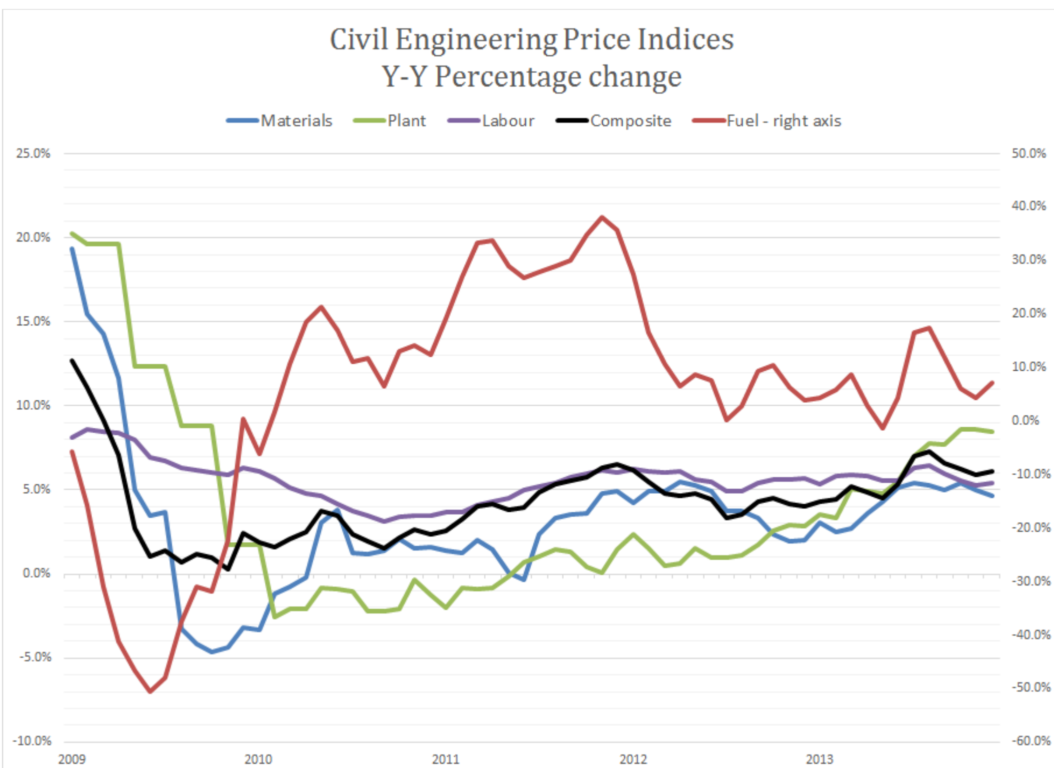


Figure 14: Civil Engineering price movements (source Stats SA)

Table 34: Macro Price Assumptions

	2011	*2012*	*2013*	*2014*	*2015*	*2016*
R/US$ Exchange Rate	7.3	8.21	9.7	10.8	11.0	10.8
Oil price ($ per barrel, UK Crude oil)	108.6	111.80	108.0	109.1	114.5	114.5
Oil Price (ZAR per barrel)	792.8	917.88	1042.2	1178.9	1262.6	1237.5
CPI (% change)	5.2%	5.7%	5.8%	6.2%	5.9%	5.5%

Table 35: CPAF Indices Forecast 2011 - 2016

Index 2012= 100	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*
Plant	98.4	100.0	106.3	119.0	121.4	119.0
Fuel	91.9	100.0	107.2	121.3	129.9	127.3
Materials	96.2	100.0	104.3	111.1	117.1	124.1
Labour	186.6	197.2	208.5	221.0	233.8	246.7
Composite	123.6	129.1	136.4	147.5	154.7	159.7
Y-Y Percentage Change						
Plant	0.1	1.6	6.3	12.0	2.0	-2.0
Fuel	30.5	8.8	7.2	13.1	7.1	-2.0
Materials	2.4	3.9	4.3	6.5	5.4	6.0
Labour	5.0	5.7	5.8	6.2	5.9	5.5
Composite	4.7	4.5	5.7	8.1	4.9	3.2

Table 36: CPAF Indices (Quarterly Average)

		CPAF Indices 2012=100					Y-Y Inflation				
Year	Quarter	Materials	Labour	Fuel	Plant	Composite	Materials	Labour	Fuel	Plant	Composite
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	105.4	210.4	109.2	107.9	138.0	5.2%	6.2%	15.3%	7.5%	7.0%
	4	105.1	212.0	111.3	109.8	139.2	5.0%	5.4%	5.8%	8.6%	6.1%
2014	1*	109.9	216.4	116.7	116.9	144.6	7.3%	5.9%	10.9%	13.7%	8.4%
	2*	110.6	219.7	121.1	118.2	146.7	6.0%	6.0%	17.5%	13.1%	8.5%
	3*	111.7	222.7	119.6	120.1	148.3	6.0%	5.9%	9.5%	11.3%	7.5%
	4*	112.1	225.2	127.8	120.9	150.2	6.6%	6.2%	14.8%	10.0%	7.9%
2015	1*	115.8	228.9	125.0	119.3	151.7	5.4%	5.8%	7.1%	2.0%	4.9%
	2*	116.6	232.5	129.7	120.6	153.9	5.4%	5.8%	7.1%	2.0%	4.9%
	3*	117.7	228.9	128.1	122.5	153.6	5.4%	2.8%	7.1%	2.0%	3.5%
	4*	118.2	238.3	136.8	123.3	157.6	5.4%	5.8%	7.1%	2.0%	4.9%

*forecast

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3. IMF World Economic Outlook
4. Share data (www.sharedata.co.za)
5. Statistics South Africa
    a. POO44 Financial statistics
    b. Contract Price Adjustment Provision
    c. Consumer Price Index
    d. Production Price Index
6. FNB/BER confidence Indices
7. Estimates of National Expenditure Reviews (Treasury)

Annexure A

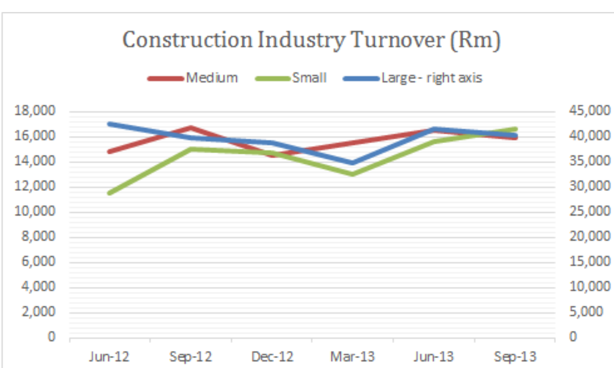
The following section is provided in line with the broader objective of the review which is to provide an overview of industry developments as experienced by the different size of firms operating in the industry. While these figures do not isolate turnover in the civil industry and includes turnover in the building industry, it does provide a framework in which the firms are operating within the construction industry. These figures are provided by STATS SA, and as shown in the previous section, although there are some discrepancies on a short term basis, the overall trend is similar. Please note that firm sizes here are based on turnover rather than employment as in the case of the SAFCEC survey.

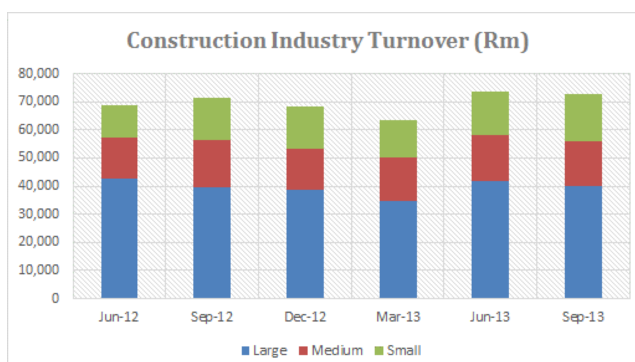
Table 37: Total construction turnover estimates (Rm, current prices)

	Large	Medium	Small	Total	Large Market Share	Medium Market Share	Small Market Share	Total Market Share
	> R182 million	R42 million to R182 million	R2 million to R42 million					
Jun-12	42,625	14,837	11,459	68,921	61.8%	21.5%	16.6%	100.0%
Sep-12	39,678	16,683	15,053	71,414	55.6%	23.4%	21.1%	100.0%
Dec-12	38,847	14,520	14,733	68,100	57.0%	21.3%	21.6%	100.0%
Mar-13	34,782	15,520	13,046	63,348	54.9%	24.5%	20.6%	100.0%
Jun-13	41,612	16,477	15,634	73,723	56.4%	22.3%	21.2%	100.0%
Sep-13	40,185	15,886	16,604	72,655	55.3%	21.8%	22.9%	100.0%

Table 38: Percentage change (nominal, current prices)

	Large	Medium	Small	Total
Quarter on Quarter Percentage Change	> 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%
Jun-13	19.6%	6.2%	19.8%	16.4%
Sep-13	-3.4%	-3.7%	6.2%	-1.4%
Y-Y Percentage Change				
Jun-13	-2.4%	11.1%	36.4%	7.0%
Sep-13	1.3%	-4.9%	10.3%	1.7%





Nominal turnover increased by 1,3 percent for larger firms and by 10,3 percent for small firms during the 3rd quarter, compared to a contraction of 4,9 percent for medium size firms. The contribution by large firms fell from over 60 percent in the 2nd quarter of 2012 to 55,3 percent in the 3rd quarter of 2013, as medium size firms are gaining market share alongside an increase in tender opportunities for medium size contracts and fewer large mega size projects are put out to tender. Due to the short history of this data, a long term trend on the turnover by firm size is not yet available and will be developed over time. Further reference is made to this data in other sections of this report dealing with profitability and the hire/leasing of plant equipment.

Source Statistics South Africa

Annexure B

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

	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Water Affairs	4,950,800	5,508,300	7,640,000	9,741,900	10,296,200	27,678,100
Transport	25,016,600	26,712,700	33,727,300	37,980,400	39,859,600	111,567,300
Public Works	713000	676200	510400	844000	885200	2,239,600
Health	5524400	5471000	6097000	6324400	6695600	19,117,000
Human Settlements (including grants to provinces)	22992800	26268000	28381400	30281100	31766000	90,428,500
Cooperative Governance and Traditional Affairs	13879200	14354400	14683800	15098100	15766800	45,548,700
National Treasury	810700	824300	826300	835300	901100	2,562,700
Sport and Recreation South Africa	0	0	0	0	0	0
Arts and Culture	229800	509500	540100	564900	594900	1,699,900
Labour	8600	5500	0	0	0	0
International Relations and Cooperation	113000	202900	214000	223800	235700	673,500
Home Affairs	27600	78200	183300	93800	96400	373,500
Science and Technology	483700	579100	992400	1056700	1061600	3,110,700
Correctional Services	744500	803100	813000	819900	863400	2,496,300
Defense	1381700	1207700	1043300	1041300	2183500	4,268,100
Justice and Constitutional Development	621200	784600	844500	784100	1046900	2,675,500
Police	691600	1036900	1099900	1149500	1210500	3,459,900
Agriculture, Forestry and Fisheries	555200	468400	710100	691400	430700	1,832,200
Communications	0	624300	131800	64900	68300	265,000
Environmental affairs	337500	405700	546400	608200	540200	1,694,800
Rural Development and Land Reform	470	2200	0	0	0	0
Energy	4,589,100	3,575,000	4,149,300	5,837,200	6,146,600	16,133,100
Trade and Industry	949500	1144000	840000	1390000	1924500	4,154,500
Parliament	0	0	0	0	0	0
Basic Education	6860700	8830800	10073700	12116200	12873400	35,063,300
Higher Education and Training	1,799,900	2,150,000	2,700,000	3,300,000	3,474,900	9,474,900
Grand total	**93,281,570**	**102,222,800**	**116,748,000**	**130,847,100**	**138,922,000**	**386,517,100**

Source: Estimates of Expenditure, Budget Review

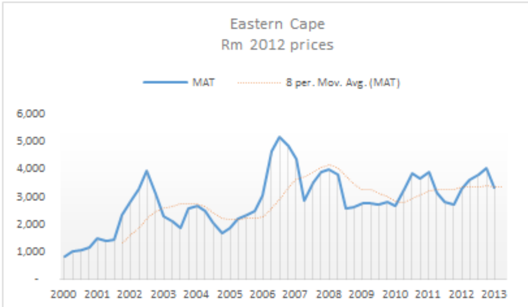
Table 40: Public Sector Infrastructure Breakdown (Rm, current prices)

	2010/11	*2011/12*	*2012/13*	*2013/14*	*2014/15*	*2015/16*	*2016/17*	*MTEF Total*
Economic services	147400	167900	176100	204600	223600	236600	229400	689600
Energy	52200	67100	75100	80600	72300	65500	50600	188400
Water and Sanitation	14600	19200	22600	32400	36500	36900	38500	111900
Transport and logistics	68600	70100	69500	78600	99600	120000	127500	347100
Other economic services	12000	11500	8900	13000	15200	14200	12800	42200
Social services	25700	31200	30200	35700	36500	37900	41500	115900
Health	6700	7700	9700	9800	10500	11300	11600	33400
Education	6200	7800	9800	12100	13500	13600	14000	41100
Other social services	12800	15700	10700	13800	12500	13000	15900	41400
Justice and protection services	3800	2800	4400	4900	4900	5000	6500	16400
Central government, administrative and financial services	3000	6500	6900	7300	7900	8400	9300	25600
Total	**179900**	**208400**	**217600**	**252500**	**272900**	**287900**	**286700**	**847500**
National Departments	7200	6600	9600	11400	14100	14300	16700	45100
Provincial Departments	39100	43400	36400	41800	42600	45500	46600	134700
Local Government	30900	33200	41700	55200	58300	61800	63500	183600
Public Entities	9400	15400	14100	16400	21500	23700	24400	69600
PPP's	7300	10700	2600	3000	3100	3300	3500	9900
Public Enterprises	86000	98900	113400	124800	133400	139100	132000	404500
Total	**179900**	**208200**	**217800**	**252600**	**273000**	**287700**	**286700**	**847400**
SOE's								
Eskom	44325	58815	60400	56400	59500	52200	40000	151700
Transnet	21500	21821	27600	25300	41300	51600	55000	147900
Central energy Fund	236	1209	10200	12800	4900	4800	3800	13500
SANRAL (toll and non-toll)	-	5683	8100	8300	11900	15800	17000	44700
Trans Caledon Tunnel Authority	352	1191	1400	1700	4800	2900	2700	10400
Other[4]	19579	10152	2200	2600	4500	4500	4700	13700
Total	**85992**	**98871**	**109900**	**107100**	**126900**	**131800**	**123200**	**381900**
SOE's % of total Budget	*47%*	*47%*	*50%*	*42%*	*46%*	*46%*	*43%*	*45%*

Source: Estimates of Expenditure, Budget Review

[4] Other include for example ACSA, Rand Water

Annexure C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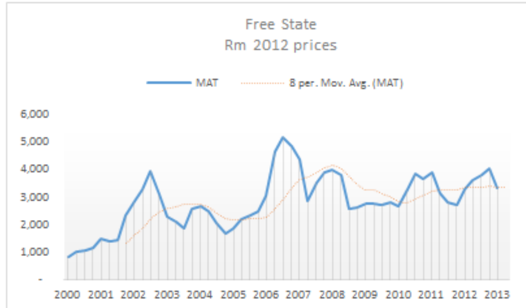
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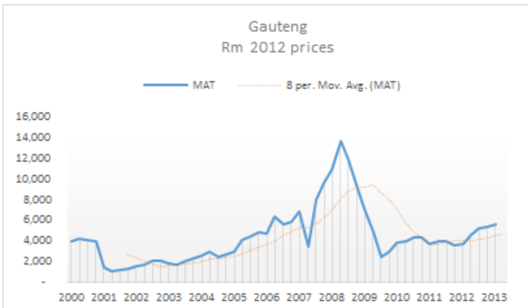
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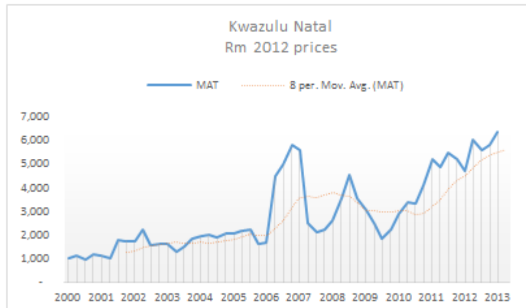
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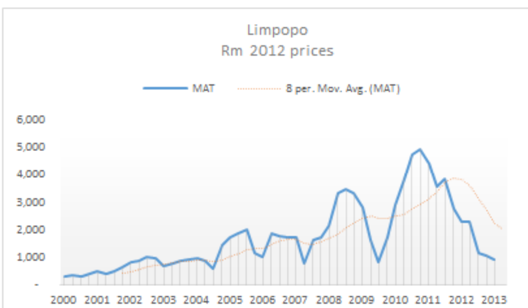
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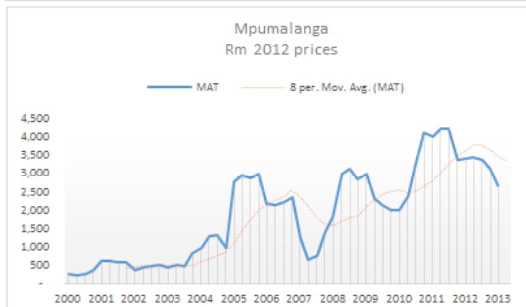
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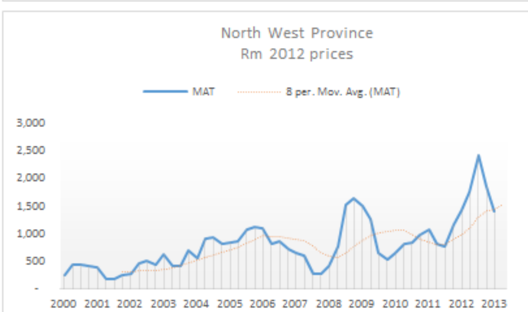
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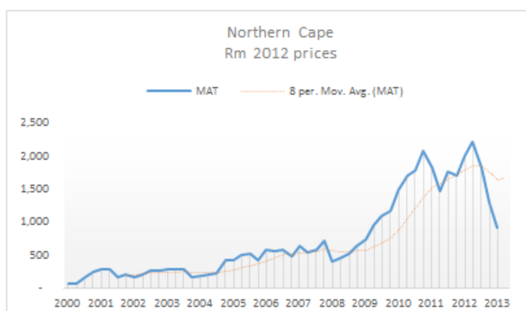
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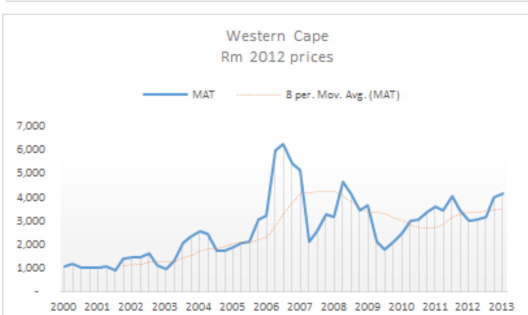
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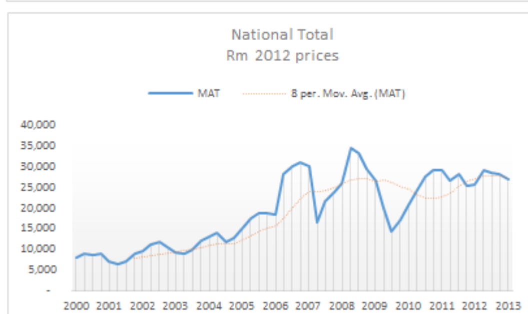
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20,000
15,000
10,000
5,000
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2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013