SOUTH AFRICAN FORUM OF CIVIL ENGINEERING CONTRACTORS

State of the South African Civil Industry

2nd 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

There has not been much change in the outlook for global growth since October 2013. Global economic growth increased by 3 percent in 2013, expected to strengthen to 3,6 percent in 2014 and 3,9 percent in 2015. Thanks to an uptick in advanced economies, with only a modest increase in emerging economies, global economic activity strengthened in the second half of 2013. However, latest data suggest a slight moderation in global growth in the first half of 2014 as much of the growth in the second half of 2103 was partly driven by inventory accumulation, in particularly the US, which may be reversed. In the Euro area, growth has turned positive, expected to increase by 1,2 percent in 2014 (-0.5 percent 2013), and 1,5 percent in 2015.

Expectations are intensifying for the United States to start increasing lending rates, which could have a negative impact on South Africa, resulting in renewed currency depreciation. According to an IMF report (April 2014) a survey of market participants suggest that lending rates are expected to increase in the 2nd half of 2015, but this could be moved forward to the 1st half of 2015. The forecasts also assume that the Federal Reserve will continue tapering asset purchases at the current pace over the next few months and that the programme will come to an end by late 2014.

Export growth in emerging economies improved in the second half of 2013, lifted by stronger activity in advanced economies, and by currency depreciation. However, investment weakness continued, and external funding and domestic financial conditions are increasingly being tightened. Nonetheless emerging economies contribute around two-thirds to global growth, according to recent IMF estimates, growth is projected to increase from 4,7 percent in 2013 to 4,9 percent in 2014 and 5,3 percent in 2015.

In emerging economies there has been a tightening of monetary and financial conditions since May 2013. This is due to issues such as a spill over from rising bond rates, and improved prospects in advanced economies. Other factors also include market's reassessment of medium-term growth prospects and greater investor concerns about vulnerabilities. Emerging market risk is generally "repriced", when rates in advanced economies increase.

Capital inflows to emerging economies is expected to remain lower in 2014, before recovering in 2015. Emerging market economic risks include further disappointments in emerging market economies, where foreign investors are more sensitive to risk and financial conditions have tightened as a result. The higher cost to capital could lead to a larger than projected slowdown in investment, with a tightening of monetary policy adding to risk in certain economies, including South Africa.

Table 1: World Economic Outlook (Source: IMF)

	2012	*2013*	*2014*	*2015*
World	3.1	3.0	3.6	3.9
US	2.2	1.9	2.8	3.0
Eurozone	-0.6	-0.4	1.2	1.4
UK	0.3	1.7	2.4	2.2
Emerging Markets		4.7	4.9	5.1
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

Despite a more favourable global economic environment the domestic economic growth outlook has deteriorated, supported by the 1st quarter 2014 GDP results, which showed that the South African economy contracted by 0.6 percent (q-q seasonally adjusted annualised rates), the first negative q-q change since the 3rd Quarter of 2009. The largest contributors to the decrease were the mining and quarrying industry, which decreased by 24,7 percent, and manufacturing which contracted by 4,4 percent. However, the economy performed poorly even if we discount the mining sector, which has been crippled by a prolonged labour strike affecting the platinum sector. Excluding the mining and quarrying industry, economic growth was still muted at only 0.8 percent q-q. Compared to last year, the unadjusted real GDP at market prices increased by 1,6 percent y/y (compared to the same quarter in 2013), supported by a 4,9 percent increase in the construction sector, and a 2,4 percent in manufacturing. At 1,6 percent the annual growth rate has slowed from 2,0 percent in the 4th quarter of 2013.

The 2014 Elections went smoothly with little reaction from the markets. A clear win for the ANC was seen as positive for the South African economy by sovereign debt rating agencies as this will ensure that the current economic policies, as those set out in the NDP, will continue to be implemented, giving developmental targets a better chance to be achieved.

A few highlights worth mentioning:

- The Repo rate was left unchanged at the March and May 2014 MPC meetings, following an increase of 50 basis points to 5,5 percent in January 2014 resulting in an increase in the prime lending rate from 8,5 percent to 9,0 percent. The MPC is faced by the dilemma that inflation is driven by supply side factors, while demand conditions remain subdued.
- The deteriorating outlook on the economy, with no immediate respite in terms of development in the 2nd quarter of 2014, it seems unlikely that the projected economic growth of 2,7 percent will be reached as anticipated in the 2014/15 budget, nor will the targets to reduce the current account deficit.
- Business confidence continues to move sideways, which continues to dampen the outlook for private sector investment in the near term.
- 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 moderate (8,2 percent in March 2014) while household debt remains high by historical terms. Credit extension to companies has however remained relatively robust (12,7 percent increase). 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. Physical volume of manufacturing production declined by a broad based 1,6 percent in the first quarter of the year.
- Outlook on inflation has deteriorated as the weaker exchange rate filters through to higher import prices. Inflation breached the upper 6 percent target in April 2014 (6,1 percent) in line with Reserve Bank forecasts. Higher food prices and a volatile exchange rate remain a risk to the inflation outlook.
- The international oil price remained within the range of US$105 –US$111 for the past few months.
- The Reserve Bank lowered the economic growth forecast for 2014 to 2,1 percent, but warned that the risks to the growth forecast are strongly on the downside, with developments in the mining sector a major cause for concern, while the demand side of the economy is also weakening.

Table 2: Macroeconomic performance and projections:

Macro-Economic Forecasts	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*
GDP	3.6%	2.5%	1.9%	2.3%	2.7%	2.4%
Household consumption	4.9%	3.5%	2.6%	2.3%	2.7%	3.5%
Government consumption	4.3%	4.0%	2.4%	2.5%	2.6%	3.0%
Gross Fixed capital formation	4.2%	4.4%	4.7%	4.2%	4.7%	1.5%
Imports	10.0%	6.0%	4.7%	6.0%	6.2%	7.2%
Exports	6.8%	0.4%	4.2%	4.5%	5.2%	6.4%
US/ZAR	7.26	8.21	9.70	10.80	11.00	10.80
CPI Inflation	5.00	5.70	5.80	6.20	5.90	5.50
Prime Lending rate	9.00	8.50	8.50	9.75	10.50	9.00
Current Account Deficit		-5.2	-5.9	-5.5	-5.1	-5.3

Source: Industry Insight estimates

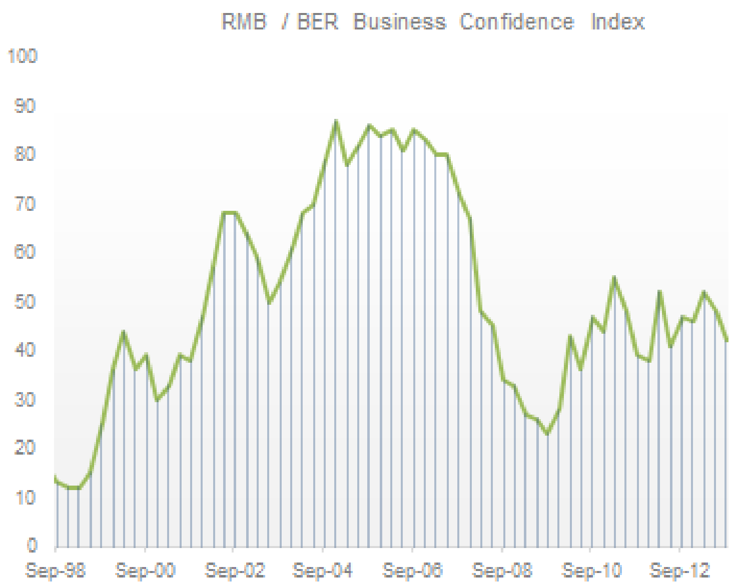


Figure 1: RMB/BER Business confidence index

There has been no improvement in business confidence since our last report. The lack of upward momentum in business confidence continues to impact negatively on private sector investment. Business confidence remain below the 50 percent neutral mark in the first quarter of 2014 according to the BER/FNB business confidence survey, with hardly any improvement shown since the start of the downturn in 2008.

Gross fixed capital formation

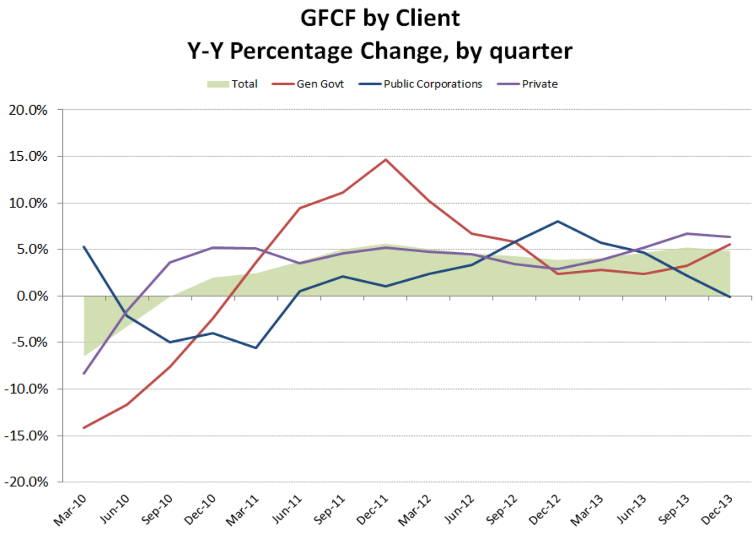


Figure 2: GFCF by client Y-Y Percentage Change

The annual growth in gross fixed capital formation (GFCF) slowed to 4,8 percent y/y in the 4th quarter of 2013, from 5,2 percent in the 3rd quarter. Growth on average strengthened marginally from an average of 4,5 percent in 2012 to 4,7 percent in 2013.

Gross fixed capital formation as a percentage of GDP averaged 20,4 percent in 2013 (20,6 percent in the 4th quarter of 2013) just marginally higher from an average of 19,9 percent in 2012.

Investment by government in fixed capital formation increased by 5,5 percent y/y in the 4th quarter of 2013 (averaging 3,5 percent in 2013 vs 6,3 percent in 2012), compared to an average growth of 3,1 percent for SOE's in 2013 compared to 4,9 percent in 2012. Investment by SOE's contracted by 0.1 percent y/y in the 1st quarter of 2014, the first negative contraction since 2011. Investment by the private sector, (which contributes 65 percent on average to total gross fixed capital formation) increased by 6,3 percent in the 4th quarter of 2013 (on par with growth in the previous quarter), averaging an improved 5,5 percent in 2013, from 3,9 percent in 2012.

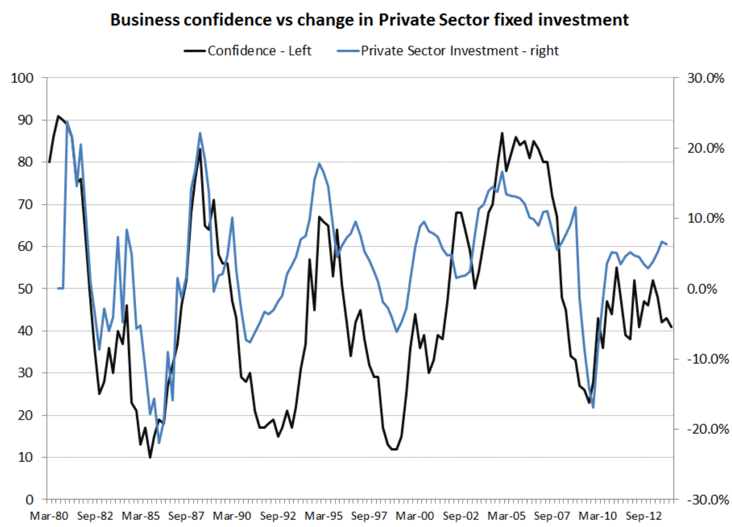


Figure 3: Business confidence vs Private Sector GFCF

Without stronger investment from the private sector, which at this stage seems unlikely considering the weak level of private sector business confidence, the overall outlook for gross fixed capital formation has weakened for 2014 as investment by government and SOE's may slow further in 2014. Gross Fixed Capital formation is expected to increase by 4,2 percent in 2014 and 5,3 percent in 2015.

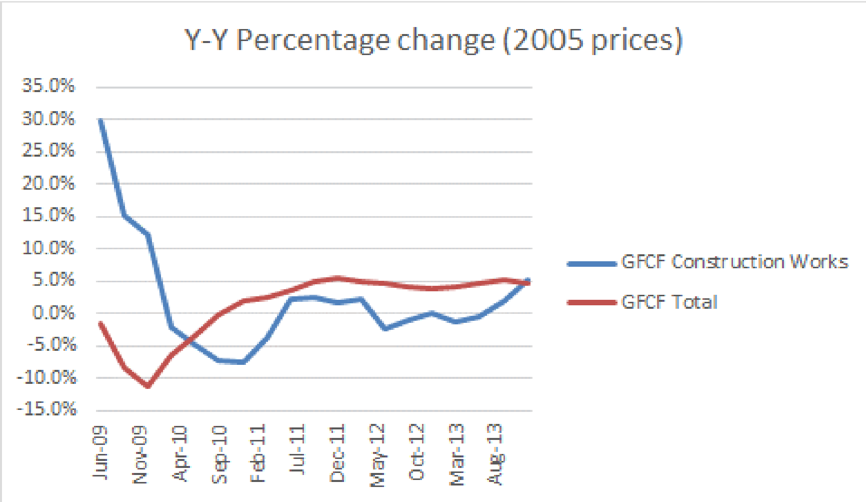


Figure 4: Construction works vs Total GFCF Y-Y percentage change

According to official data released by the South African Reserve Bank, investment in the civil construction industry, including expenditure on machinery and equipment, increased by 5,2 percent in the 4th quarter of 2013, the strongest increase since 2009, and is on par with the overall increase in GFCF. Investment growth ended flat in the building industry, (0.3 percent 2013Q4), with no real improvement since the downturn in 2010. While investment has deteriorated in residential buildings, higher levels of investment in office and retail space, combined with higher levels of investment in social infrastructure by government, supported some growth in the non-residential sector. However, latest indicators are pointing to a slowdown in pipeline activity for private sector non-residential construction, but this could be offset, although to a lesser extent, by an improvement in the approvals for residential construction. The number of sqm approved for housing increased by 11,0 percent in the 1st quarter of 2014, compared to a 12,6 percent y/y drop in sqm approved for non-residential construction.

Details of investment in the residential, non-residential and civil works sectors are provided in Statistical Supplementary report.

THE POSITION OF THE CIVIL ENGINEERING INDUSTRY

Background

- 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.

Sample profile

In the 2nd quarter 2014 survey, large firms represented 40% of the sample, compared to 23% in the previous survey. This will impact the analysis of the data due to the fact that responses are weighted. Medium size firms represented 40% compared to 59% in the previous survey.

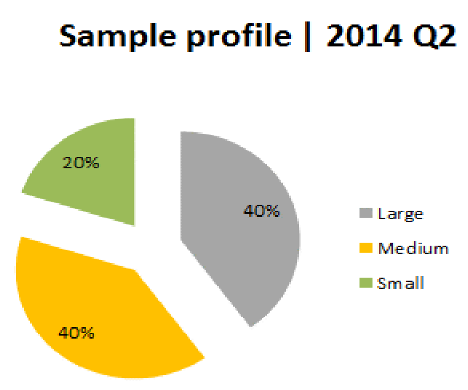


Figure 5: Sample profile of respondents 2014Q2

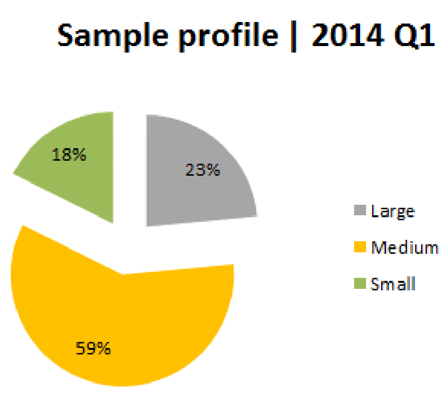


Figure 6: Sample profile of respondents 2014 Q1

Financial Statistics

Turnover, or the **nominal value of work certified for payment**, fell by 5 percent in 2013, in spite of the 10 percent q-q increase in the last quarter of 2013. Nominal turnover fell by an average of 11, 0 percent q-q in the 1st quarter of 2014, but this is still 18 percent higher compared to the same quarter in 2013. This is a slower than expected start to the year, putting our growth forecast of 4,5 percent in real terms, at risk for 2014.

A higher percentage of turnover was generated in the road sector, averaging 52 percent of total turnover in the first quarter of 2014 compared to an average of 36 percent in the last six months of 2013. The percentage contribution by mining infrastructure fell to 6 percent and for mining surface earthworks to 3 percent.

The private sector contributed 42 percent of total turnover in the 1st quarter, followed by 27 percent by SOE's and 16 percent by Central government. Turnover distribution differ greatly between the different size firms, as medium contractors are more actively involved with provincial and local government compared to larger contractors. Local government contributed 43 percent of turnover generated by medium size contractors, compared to only 2 percent in terms of larger contractors.

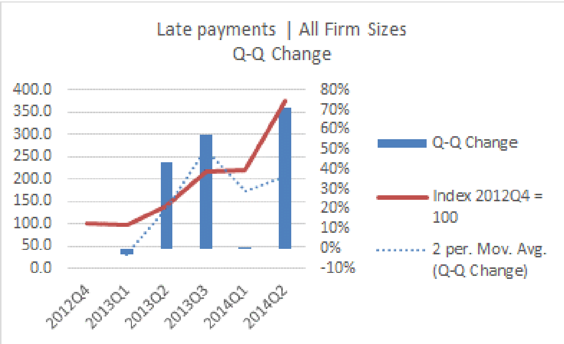
Larger firms earned a considerable lower percentage of turnover from government (including central, provincial and local, but excluding SOE's), compared to medium size contractors, but the trend has started to move upwards (21%), while the exposure by medium size contractors moderately slightly too just below 60 percent.

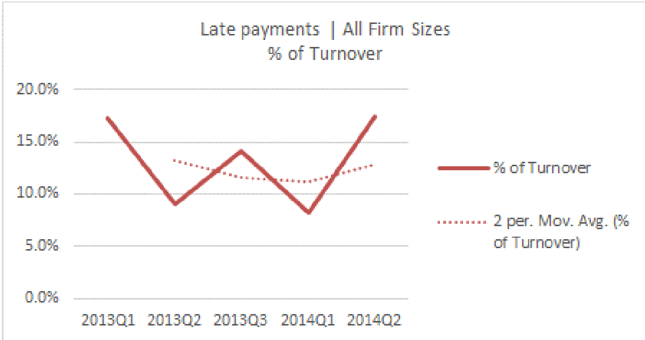
Employment increased by 2,5 percent q-q, but with some disparities between the different firms, even within the same firm size category. Larger firms, overall, as major job creators in the construction industry, increased employment by an average of 3 percent in the 1st quarter of 2014 compared to the previous quarter. Medium size contractors reported no change in employment, while smaller firms cut back on employment by an average of 8 percent.

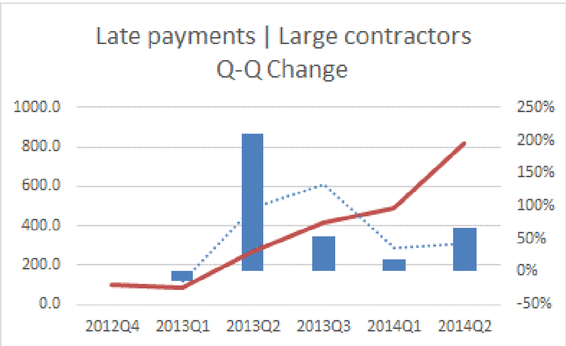
The nominal value of **salary and wages** deteriorated for the second consecutive quarter, down 9 percent on average in the 1st quarter of 2014 (quarter on quarter), following a 4,0 percent decrease reported in the 4th quarter of 2013. The contribution of the salary and wage bill to turnover increased to an average of 25 percent, from 22 percent in the previous survey. The ratio was similar between all firm size categories (large, medium and small), but had the strongest contribution for larger firms (28 percent) vs 26 percent for smaller firms.

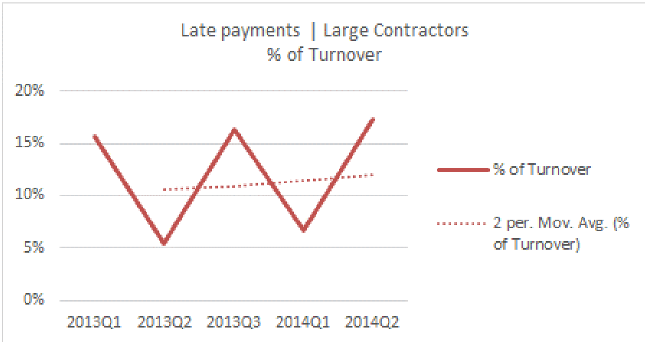
Of greater concern is the growing trend in reported late payments. There was a 43 percent q-q increase in the **nominal value of late payments**, for civil works completed and already invoiced in the 1st quarter of 2014 compared to the 4th quarter of 2013. Majority of contractors reported an increase in late payments, although medium size firms reported a stronger increase (up 139 percent) by comparison to larger firms (up 67 percent).

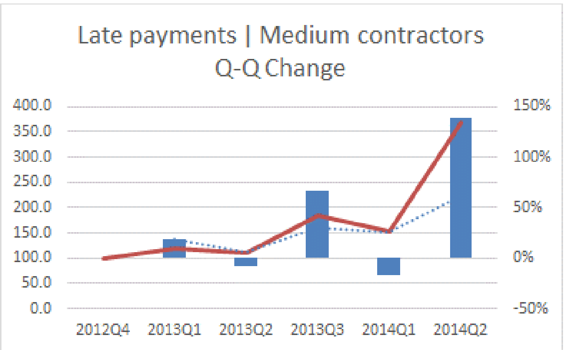
As a percentage of turnover, late payments (including all time frames from 30 days to more than 90 days) increased to 17,5 percent from revised 8,2 percent in the 4th quarter of 2013. However, these ratio's tend to be somewhat erratic (and differs greatly from firm to firm and from survey to survey), thus measured over a "two survey" period, the average rate increased to 12,8 percent in Q1 from 11,2 percent in the preceding survey.

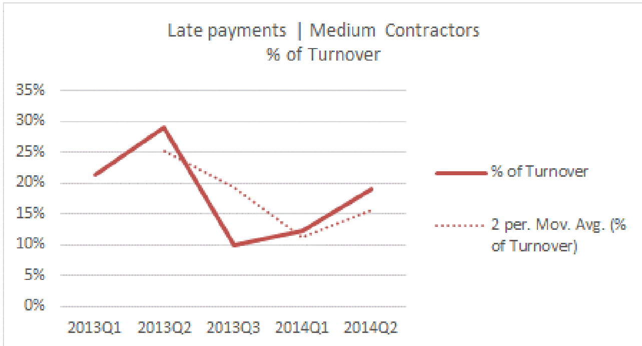




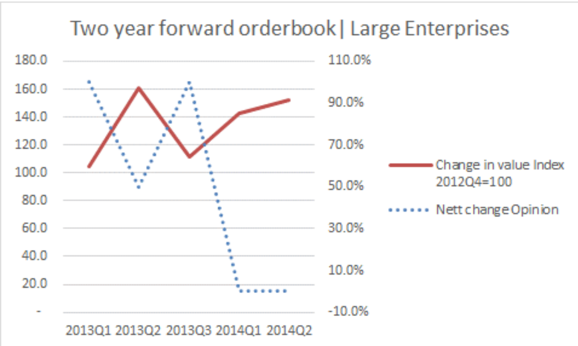


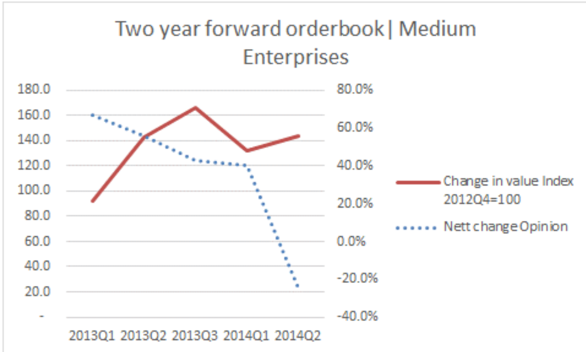






The nominal value of the" **two year forward order book**" for South Africa improved in the 2nd quarter and increased by an average of 7,0 percent q-q compared to the previous survey when there was a broad base weakening in the value of order books which then fell by 19 percent. In spite of the marginal increase in the value of order books, the nett percentage change in the opinions related to order book, remains negative.





The nett satisfaction rate amongst medium size contractors declined to -25.0 from an average of 40.0 in the previous two surveys. A total of 12.5 percent of the medium size respondents felt that the two year forward order book was in a "good" position, with the majority (62 percent) saying it is low.

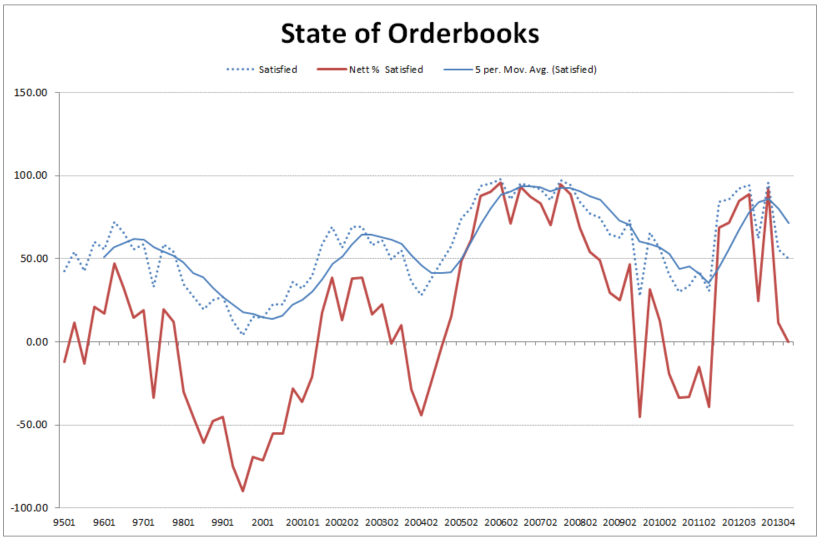


Figure 7: State of order books

Opinions related to the order book are more erratic, but the trend line (solid blue line on the chart above) has as expected reached an upper turning point, suggesting opinions are becoming increasingly pessimistic. The nett % satisfaction rate deteriorated from 92 percent in the 3rd quarter, to 11 percent in the 4th quarter and has now fallen into negative territory, of -0,2 percent in the 1st quarter of 2014. This is the weakest level since 2010/11.

Industry Profile

The following section provides a snapshot view of turnover earned by project type, client and province during the 1st Quarter of 2014, surveyed in May 2014.

Table 3: Turnover distribution by sub-discipline

Discipline	*Large*	*Medium*	*Small*	*Total 2013Q2*	*Total 2013Q4*	*Total 2014Q1*
Roads	52.2%	69.8%	79.1%	39.5%	41.0%	53.8%
Earthworks	4.2%	7.5%	2.4%	9.4%	5.6%	4.5%
Water Bulk Infrastructure	6.1%	4.3%	0.4%	7.8%	8.7%	5.9%
Water and Sanitation	3.8%	4.7%	2.1%	3.7%	9.3%	3.9%
Rail	0.8%	0.0%	0.0%	1.0%	0.0%	0.7%
Harbours	0.0%	0.5%	0.0%	4.1%	0.5%	0.1%
Power (bulk)	12.5%	0.0%	0.0%	10.2%	16.9%	11.4%
Power (services)	2.7%	0.0%	0.0%	0.0%	0.0%	2.4%
Airports	1.9%	1.8%	0.0%	4.7%	0.7%	1.9%
Mining Infrastructure	6.0%	4.8%	0.0%	9.3%	9.9%	5.8%
Mining (Surface earthworks)	3.0%	2.9%	0.0%	5.1%	0.4%	3.0%
Other	6.8%	3.6%	16.0%	5.1%	6.9%	6.6%
Total	100.0%	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.

Table 4: Turnover distribution by client

	Large	*Medium*	*Small*	*Total 2013Q2*	*Total 2013Q4*	*Total 2014Q1*
Central	18.1%	0.2%	0.0%	4.3%	2.1%	16.4%
Provincial	7.5%	25.0%	26.7%	5.5%	7.3%	9.2%
Local	1.4%	43.1%	68.4%	7.5%	8.6%	5.6%
Corporations	28.8%	12.0%	0.0%	27.6%	58.3%	27.1%
Private	44.2%	19.7%	4.9%	55.1%	23.7%	41.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Data for the third quarter not available

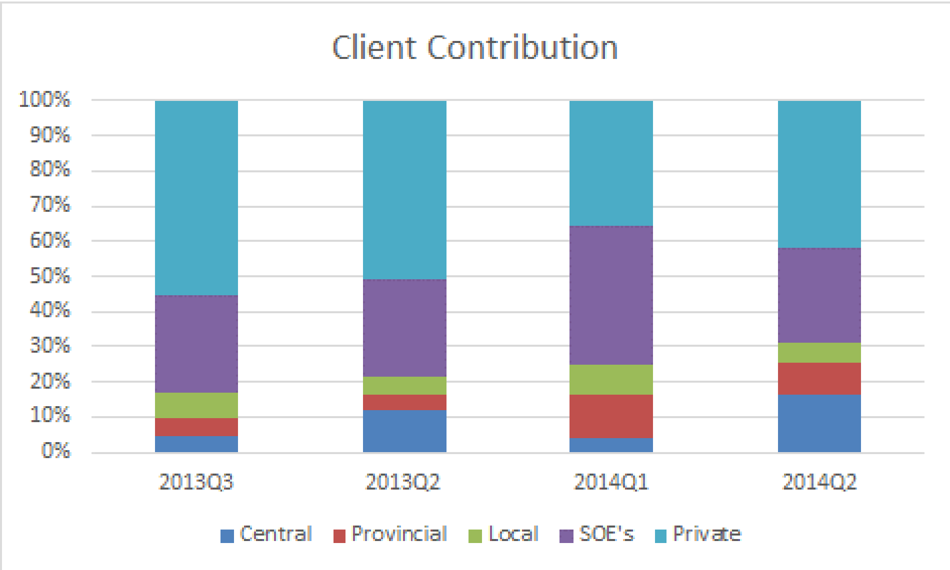


Figure 8: Client contribution to turnover

The contribution by the private sector recovered to 42 percent in the current survey (from 36 percent in the previous survey), but is still below the more than 50 percent reported in the first half of 2013. The role of central government increased to 16 percent from a modest 4 percent in the last quarter of 2013. For a more detailed breakdown of the client contribution by firm size category please refer to the supplementary report.

Table 5: Geographic Distribution of the value of civil engineering construction work (turnover)

Province	*Large*	*Medium*	*Small*	*2013Q3*	*2013Q4*	*2014Q1*
GAU	17%	18%	10%	8%	26%	17%
WC	9%	55%	49%	10%	7%	13%
EC	7%	1%	37%	5%	2%	6%
NC	7%	1%	0%	4%	10%	7%
MPU	21%	5%	1%	37%	17%	20%
FS	8%	4%	0%	7%	6%	8%
LIM	11%	7%	1%	15%	12%	11%
NW	1%	4%	2%	6%	2%	2%
KZN	18%	6%	0%	7%	17%	17%
Total	100%	100%	100%	100%	100%	100%

Mpumalanga contributed 20 percent of turnover in the 1st quarter of 2014, based on responses received, due to an increased presence by larger firms. The contribution by Gauteng moderated to 17 percent, while Western Cape increased to 13 percent.

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

	2012 Q4	*2013 Q1*	*2013 Q2*	*2013 Q2*	*2013 Q4*	*2014 Q1*	*2013 vs 2012*	*2012 vs 2011*	2011 vs 2010
EC	77%	85%	35%	41%	-49%	89%	7%	-9%	51%
FS	545%	40%	17%	-67%	16%	-42%	-5%	56%	-20%
GAU	38%	9%	77%	20%	34%	-64%	55%	6%	2%
KZN	-20%	202%[1]	-25%	30%	44%	17%	42%	-5%	90%
LIM	-56%	8%	-74%	-34%	-47%	109%	-59%	-45%	58%
MPU	10%	12%	-3%	-42%	-91%	-62%	-18%	-11%	111%
NW	102%	420%	445%	-92%	-80%	-43%	1%	43%	73%
NC	154%	155%	-44%	-88%	-75%	-65%	-52%	15%	28%
WC	-38%	9%	21%	173%	41%	-25%	46%	-12%	57%
TOTAL	13%	72%	3%	-2%	-14%	-19%	10%	-6%	48%

The nominal value of civil contracts awarded fell for the third consecutive quarter in the 1st quarter of 2014, down 19 percent compared to the same quarter in 2013. This follows a quarter on quarter decrease of 2 percent and 14 percent in the 3rd and 4th quarter of 2013.

The more favourable conditions in the 1st half of 2013 has therefore been reversed. The weaker performance which started in the last six months of 2013 may have a negative impact on the industry turnover in 2014, which is expected to increase by between 10 percent and 13 percent in nominal terms on the back of a projected infrastructure expenditure by government in 2014/15., as announced in the 2014 Budget. However, at this rate it seems tenders are being scaled down to smaller projects with fewer, even medium size contracts, being put out to tender in the first quarter.

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

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

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.

Competition for tenders eased for the 2nd consecutive quarter, as an increasing number of contractors reported competition of between 5 and 10 tenders, while an increasing number of firms reported keener tender prices

The more negative outlook in terms of **order books** persisted in this survey as respondents remained less satisfied with the status of order books and turnover. The nett % satisfaction rate fell into negative territory -0.2 percent, from 11 percent (2013Q4) and 91 percent (2013Q3). 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, but even this has worsened to even lower Grade projects.

The positive trend in the previous two quarters, with regards to **profitability** was reversed in this quarter, as respondents were less optimistic regarding profitability. The nett % satisfaction rate fell to -13.4 percent, from (positive) 15 percent and (positive) 4,8 percent in the previous two surveys. 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. Thus, although conditions were more challenging in the first quarter, the trend average over the last five quarters is still on an upward trajectory. 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.

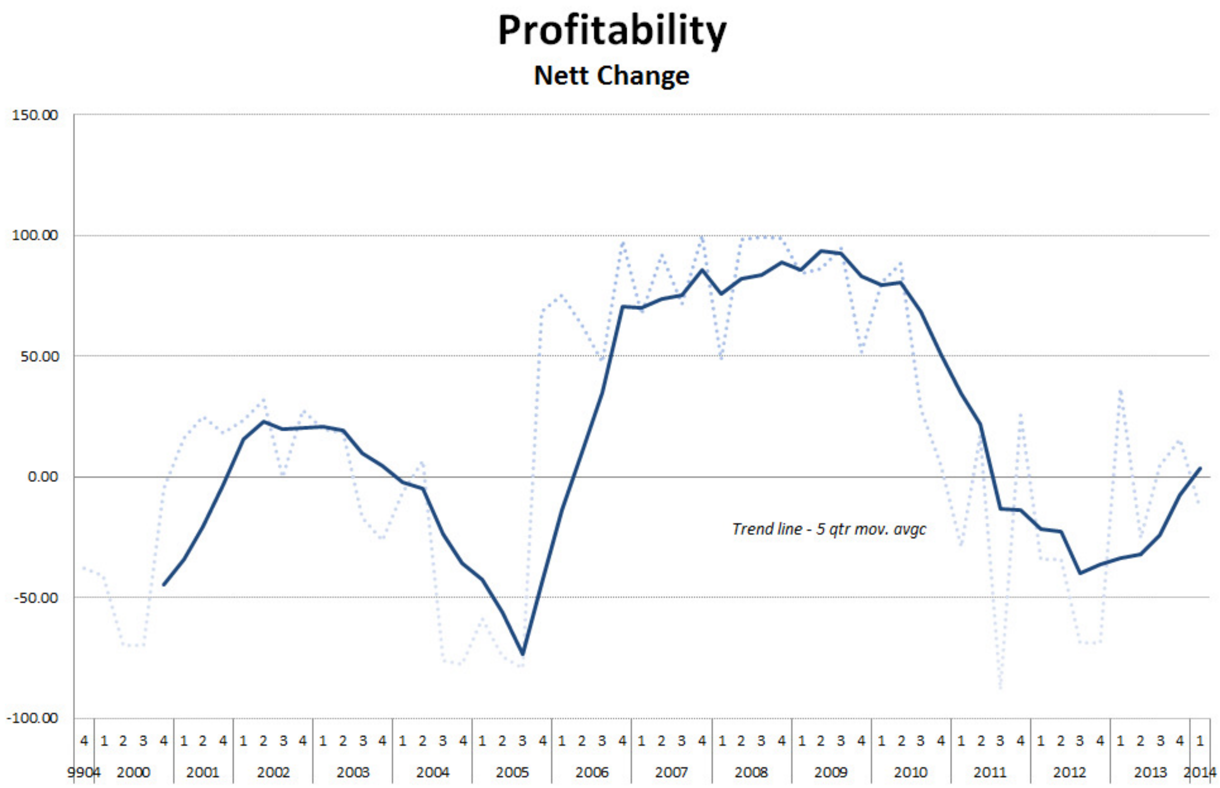


Figure 9: Opinions related to Profitability

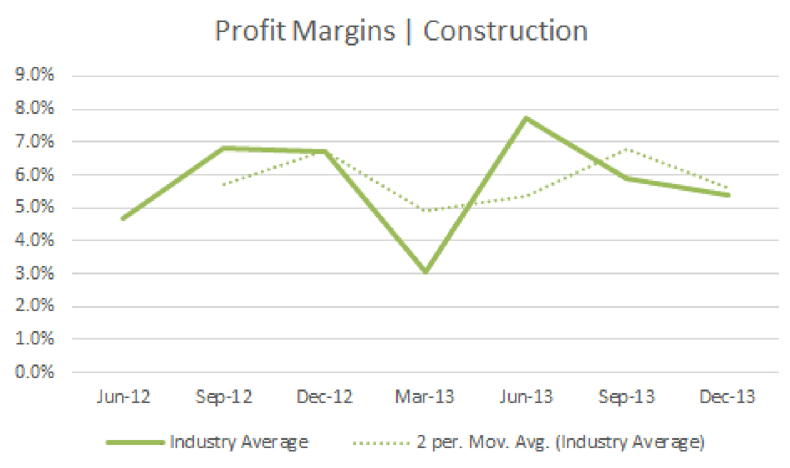


Figure 10: Profit Margin (Source Statistics South Africa, P0044)

According to Stats SA nett profit before tax as a percentage of turnover for construction (including civil and building sectors) fell from an average of 5,9 percent in 2013Q3 to 5,4 percent in Q4. Data is also provided for the different size firms, with profitability of medium size firms showing the strongest deterioration from an average of 12 percent to 0 (zero) percent over the last few quarters, while conditions have stabilised with a gradual upward trend in the profitability of larger firms. Please note the Stats SA definition of enterprises is in this case based on average annual turnover and not the number of employees[2].

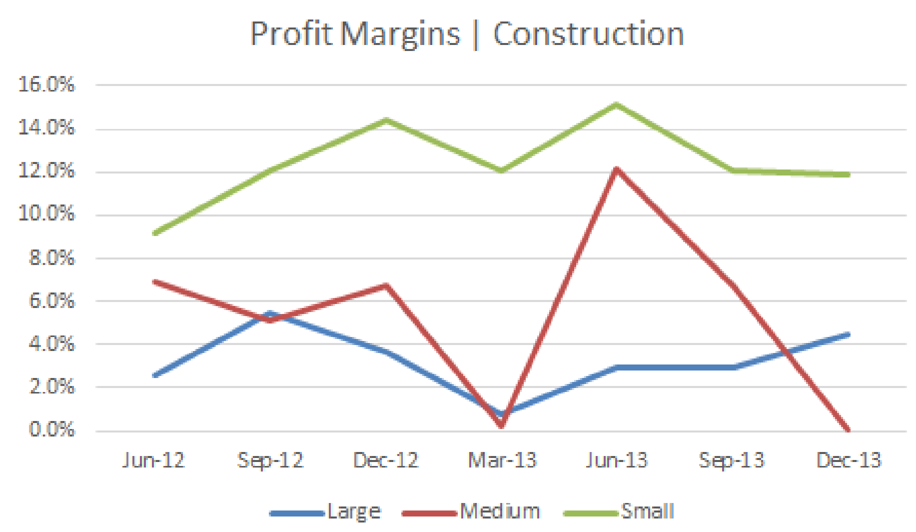


Figure 11: Average profit margins, total construction split by large, medium and small enterprises

[2] Large > R182m, Medium R42m – R182m, Small R2m – R42m (Source Stats SA Quarterly Financial Statistics Survey – December 2013)

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 less than 25 percent of their plant is standing idle (87 percent) compared to 75 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 6,8 percent in the 4th quarter, compared to a decrease of 14,2 percent by medium size enterprises. According to Stats SA approximately 2 percent of turnover was spent on hiring and leasing of plant equipment during the 4th quarter of 2013 (compared to 3 percent in the 3rd quarter), increasing by an average of 10 percent y-y in 2013.

Medium size firms are spending a higher portion of their turnover on hire/leasing of plant equipment, but the ratio has slowed from 6,0 percent on average in the first three quarters of 2013 to 3,5 percent in the last quarter. Larger enterprises spent an average of 2,6 percent of turnover on plant equipment in 2013. 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.

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.

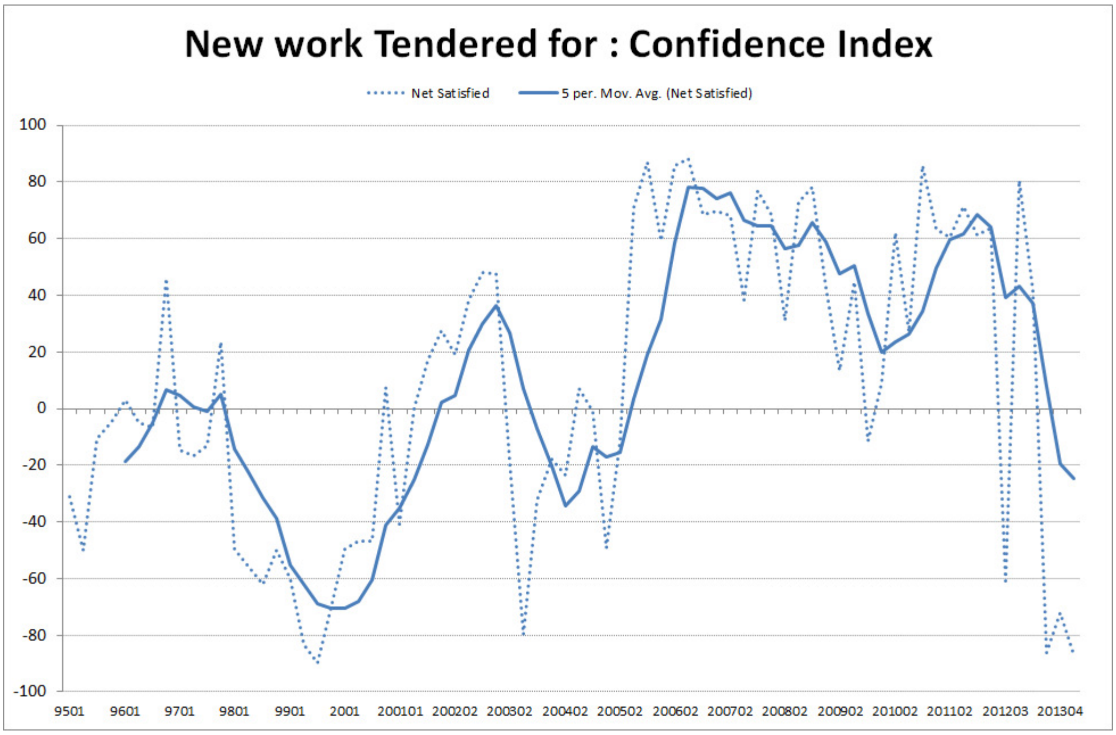


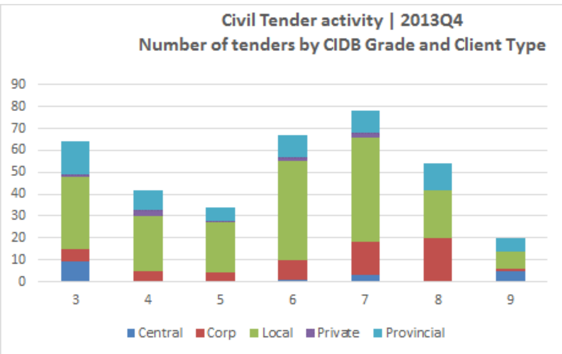
Figure 12: Opinions of new work tendered for: Confidence Index

Majority of firms reported their dissatisfaction with tender volumes. The nett satisfaction rate has remained at almost historical record low levels over the past three surveys, deteriorating to -87.1 percent in the current survey. The trend line based on a 5 quarter smoothed average, is now deep in the red.

All the larger firms and between 40 and 50 percent of the medium and smaller firms reported low tender volumes. Conditions are becoming more challenging for medium size firms where we are seeing a reversal in some of the more positive trends shown in the past few quarters. Again, medium size firms were not as optimistic regarding tender volumes as they were in the previous survey, lowering the nett percentage satisfaction rate from 20 percent to -75.0.

The number of tenders released during 2013 increased by 7 percent, (excluding Grade 1 and 2 contracts), in spite of the 7 percent contraction reported during the last quarter of 2013. In the first quarter of 2014, tender activity increased by 3 percent y-y mainly due to a 39 percent increase in Grade 7 to 8 contracts, (although these only contributed 18 percent to the total number of tenders), and a 9 percent increase in Grade 5 – 6 contracts 9 (which contributed about 32 percent to the total number of tenders).

The profile of tenders has changed in the 1st quarter focussed more on lower value CIDB Grades such as 3 to 4, which accounted for almost 50 percent of the tenders in the 1st quarter compared to contributing 30 percent in the last quarter. This contributed to the lower overall estimate of the value of tenders issued in 2014 and does not bode well for future awards. The contribution of Grade 7 – 9 fell from 42 percent in the last quarter to 19 percent in the 1st quarter. Of the projects out to tender in the last quarter of 2013 could still have a positive impact on construction during the course of the year, provided those projects are awarded. However, we have already seen a slump in awards during the 1st quarter (down 19 percent).



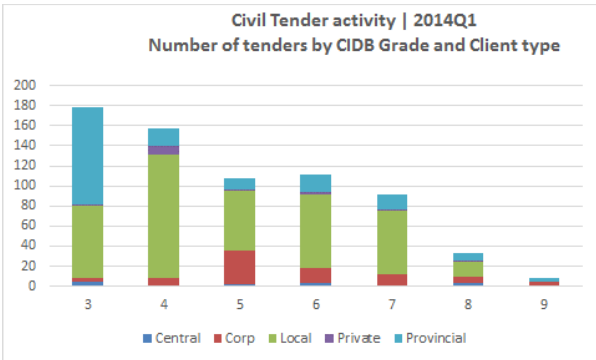


Table 7: Civil Tender activity by known CIDB grade

Year, Quarter	3	4	5	6	7	8	9	Total
201201	211	146	95	92	72	28	14	658
201202	218	112	77	91	112	39	12	661
201203	261	170	120	130	123	43	15	862
201204	198	185	134	155	76	39	10	797
201301	246	123	97	106	59	31	9	769
201302	316	153	132	120	102	31	7	671
201303	239	188	152	173	109	30	15	906
201304	175	124	101	139	111	68	24	742
201401	180	158	108	113	92	33	9	693

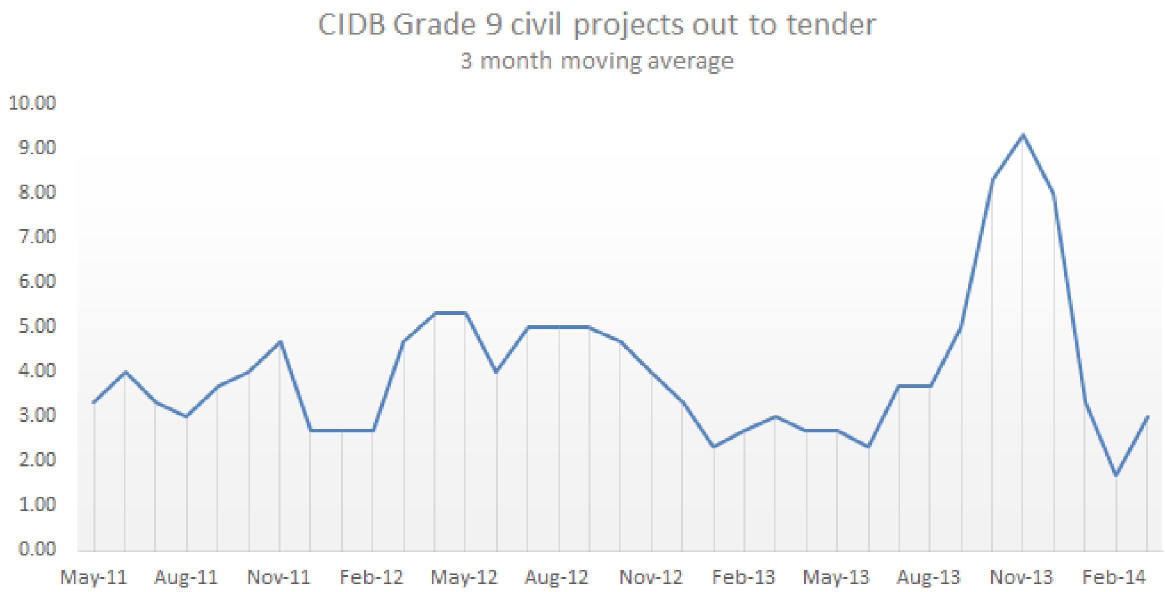


Figure 123: CIDB Grade 9 Tender activity

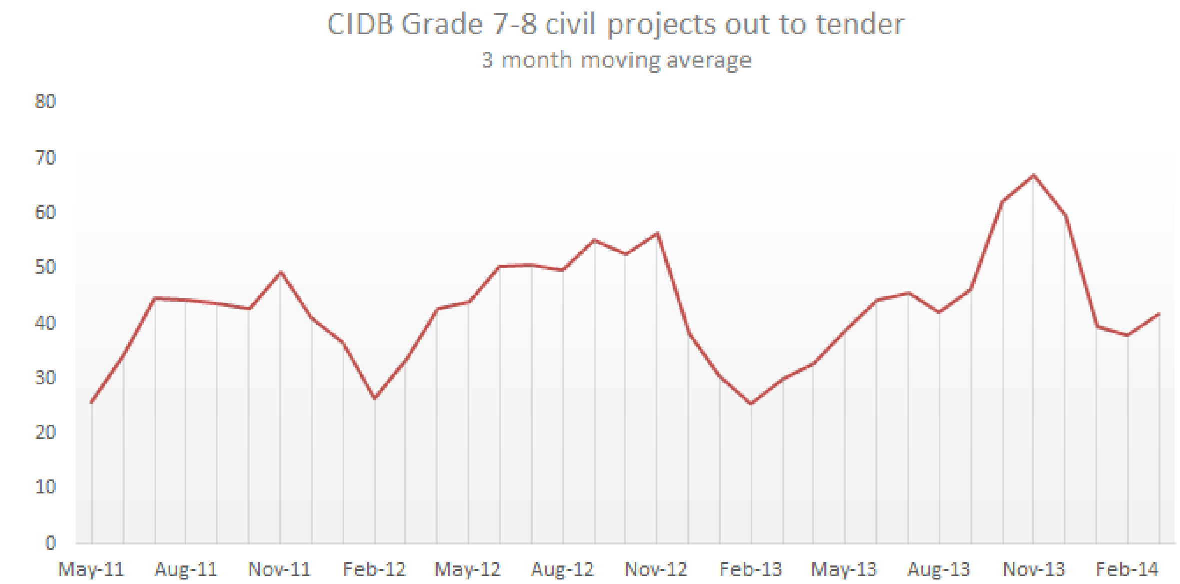


Figure 134: CIDB Grade 7-9 Civil tender activity

Although tender activity had increased by 3 percent when compared to the same quarter in 2013 (excluding CIDB Grade 1 and 2 contracts) the estimated value of tenders released was 31 percent lower compared to the same period in 2013, 42 percent lower compared to the previous (revised) quarter (4th quarter 2013).

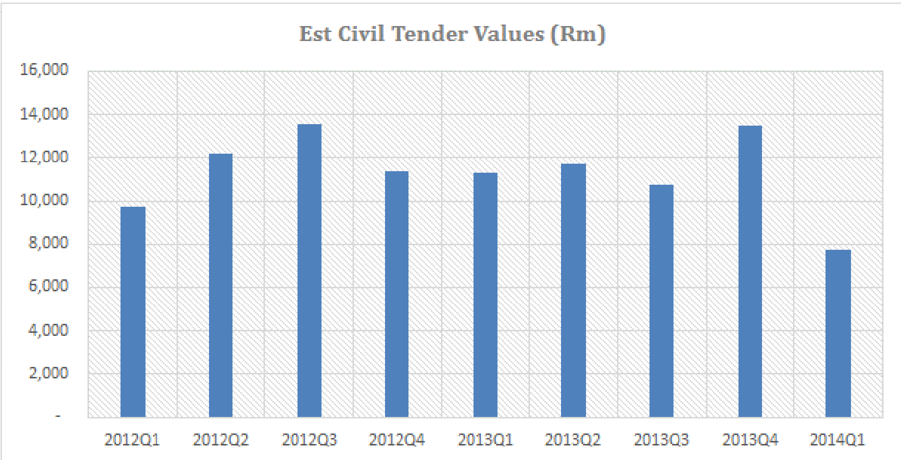


Figure 145: Estimated Tender Values (Rm) 1st Quarter 2014

We normally would have expected higher levels of optimism from larger contractors considering the fact that 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 mostly the local government departments in the case of Kwazulu Natal and provincial government in the 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 still affected by the slow pace of awards. Normally less than 1 percent (0,65 percent) of the tenders issued relate to CIDB Grade 9 projects, but this increased to 2,8 percent in the 4th quarter of 2013, before falling to a contribution of 1.3 percent in the 1st quarter of 2014. The estimated value of tenders (because of the higher profile of grade 7 and grade 8 projects) increased by (revised) 18 percent y-y in the 4th quarter of 2013, but was 42 percent lower in the 1st quarter of 2014. Thus while the more favourable conditions in the last quarter of 2013 bode well for the first half of 2014, the poor start to 2014 is somewhat discouraging.

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

Table 8: 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	4	73	185	288	-	9,662	3,261	13,473	18.1% (Revised)
2014Q1	-	287	423	285	9	3,886	2,871	7,760	-42.4%

Source: Industry Insight Project Database, Databuild

Awards

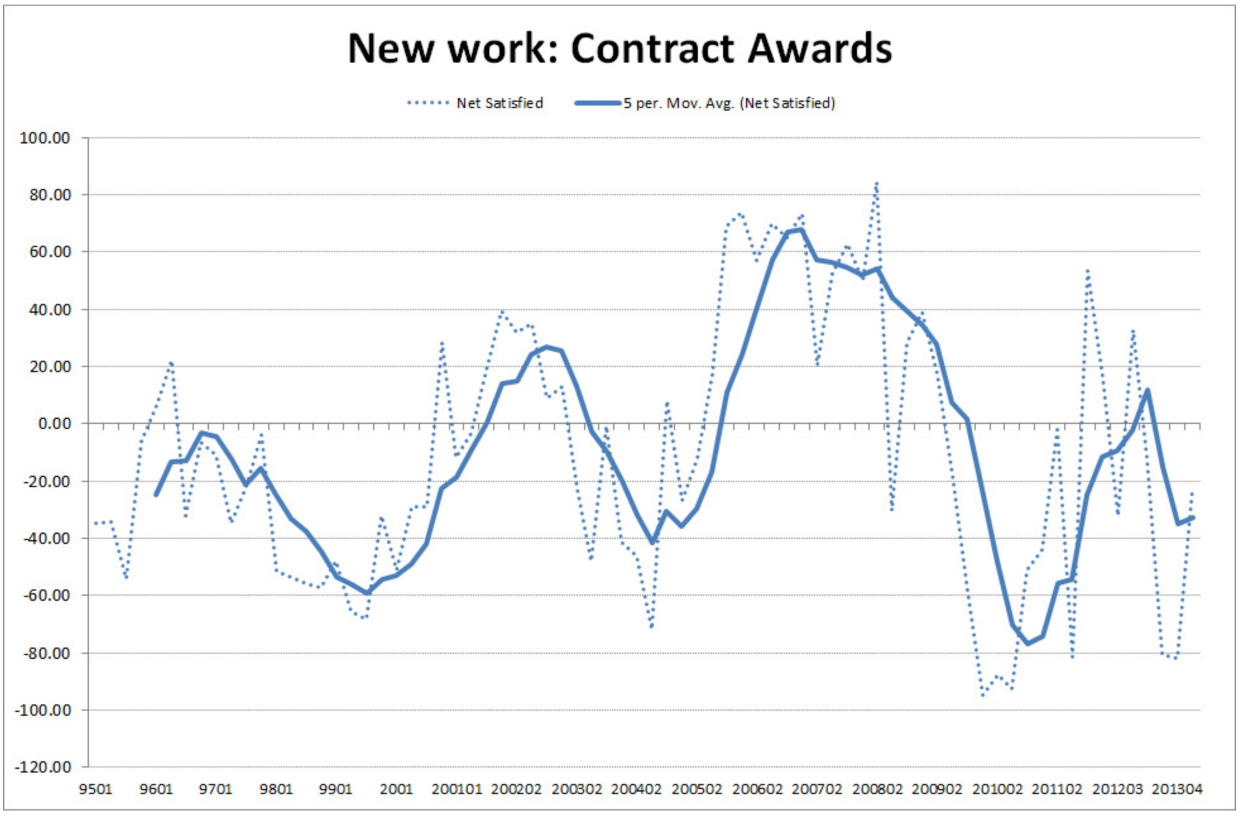
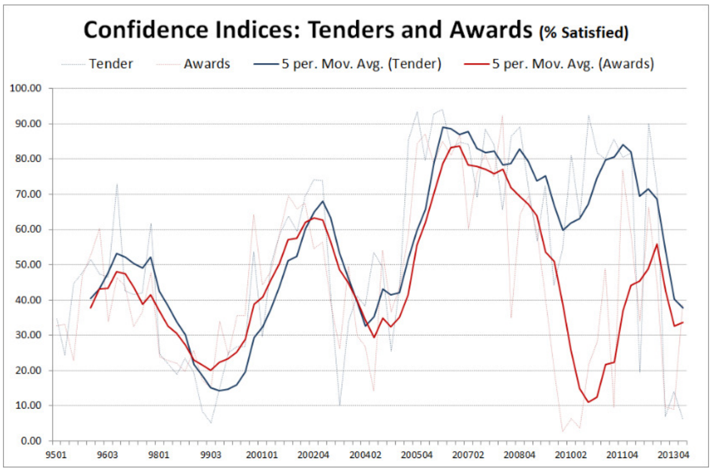
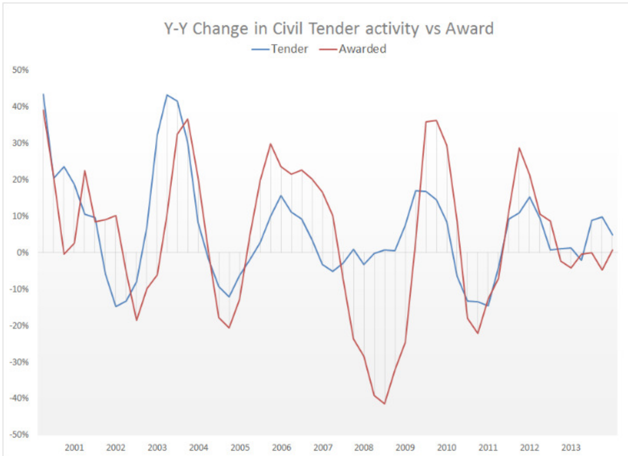


Figure 16: Opinions related to Awards

Pessimism towards the awarding of tenders continued in the 1st quarter of 2014, but was less “negative’ compared to the previous survey. Because an increasing number of firms reported the awarding of contracts to be satisfactory as opposed to low, the nett satisfaction rate improved from -82.0 in the previous quarter to -22.5 in the 1st quarter of 2014. However, the trend is still firmly negative, and it will take some time for overall conditions to improve to such an extent that the overall trend returns into positive territory, last seen in 2005 to 2007.

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.





Turnover

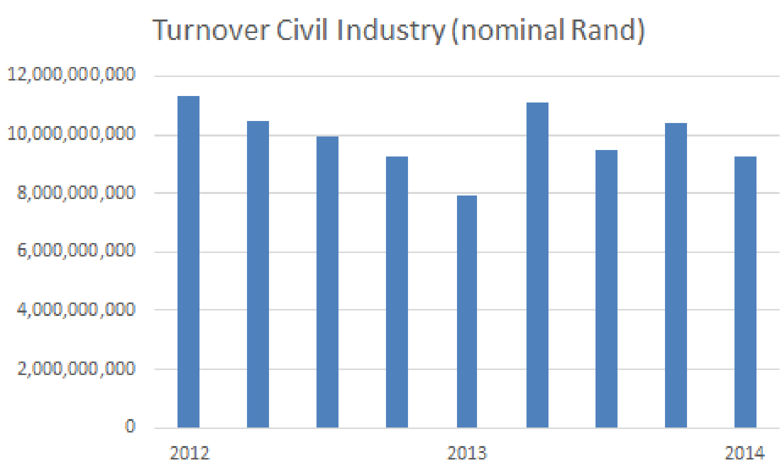


Figure 157: Civil industry Turnover

Nominal turnover fell by 11,8 percent q-q in the 1st quarter of 2014, compared to an increase of between 10 and 12 percent q-q in the 4th quarter of 2013 and a 40 percent in the 2nd quarter. Negative change in turnover was reported by majority of contractors, across all firm sizes. However, considering the low turnover reported in the 1st quarter of 2013, turnover was still higher by 17 percent, following the 13 percent y/y increase in the 4th quarter of 2013.

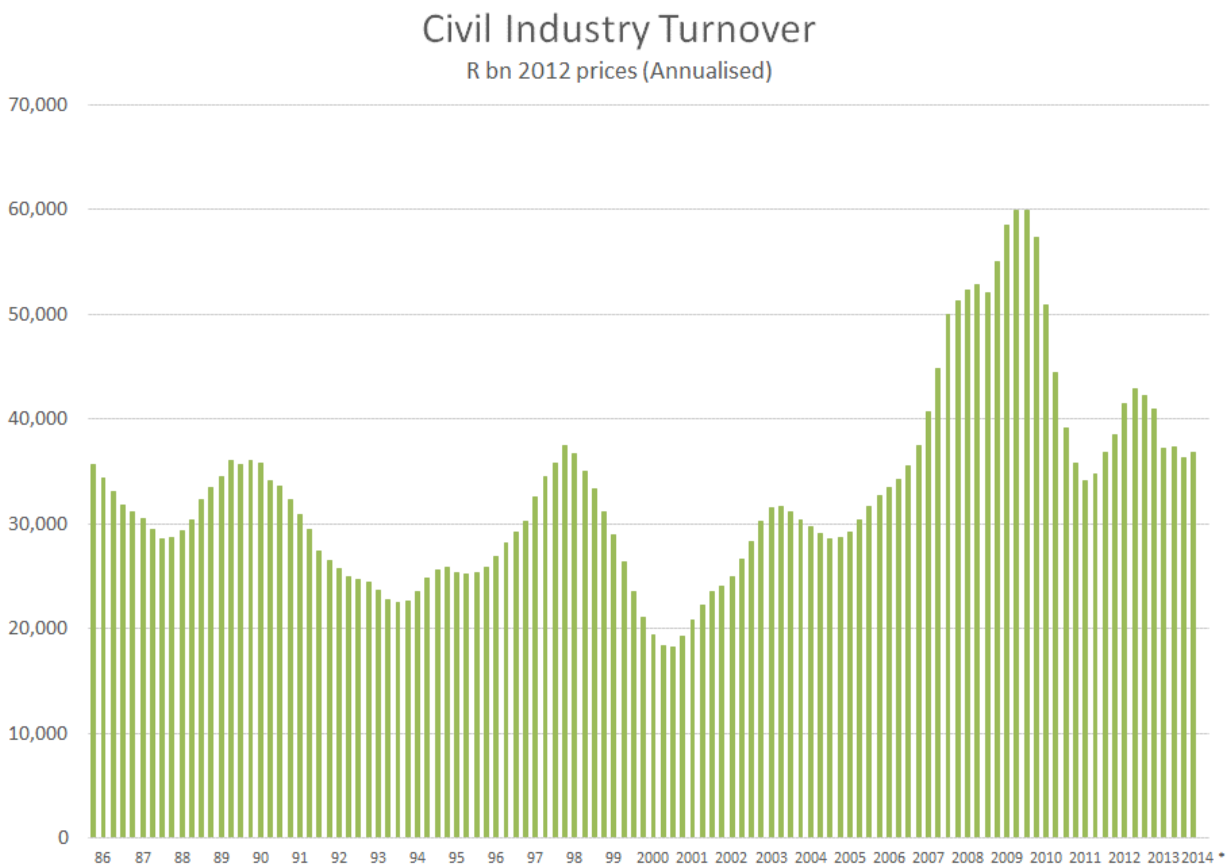


Figure 18: Civil Industry Turnover, 2012 prices

Firms were more divided in their opinions related to turnover in the 4th quarter of 2013. 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.

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 by 10 percent, compared to an increase of 6 percent in 2012.

Price pressures are expected to accelerate in 2014, as higher levels of currency volatility and a stronger depreciation of the rand is expected to have an inflationary 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 also 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 9: 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 10: Employment, Contract Awards, Turnover and Salaries and Wages

	Employment	Turnover (nominal)	Salaries and Wages (nominal)
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
2014.1	96241	9,255,630,385	2,048,271,004

Revised | * estimate

Companies showing increased revenue but mixed signals on operating profit.

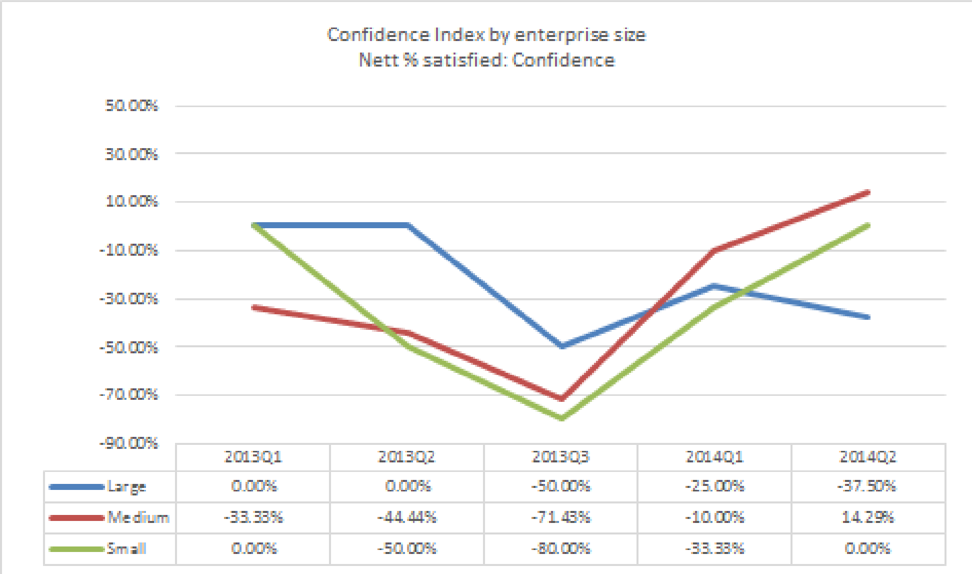
According to financial results reported by Raubex and Stefanutti Stocks, for the year ended February 2014, revenue increased by 12,2 percent and 4,8 percent respectively. Operating profit has increased, in part as the impact of the penalties paid to the Competition commission starts to filter through, although profit margins were largely sustained. Companies continue to report on difficult trading conditions, both domestically and abroad. Depressed conditions, building industry negatively affected the turnover of Stefanutti Stocks, while the absence of large government infrastructure projects and mining surface infrastructure projects put further pressure on company turnover. Increased competition in the "medium size" sector means profit margins will be difficult to be maintained. Competition in road construction remains rife which was also challenged by industrial strike action and adverse weather conditions during the second half of the year. Companies will continue to seek off shore opportunities.

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. The impact of medium size contractors are clear in this survey, as the disparity between those reporting poor conditions vs fairly good conditions widened. An increasing number of firms reported poor conditions (weighted average of 18,4 percent vs 16,5 percent in the previous survey), while those that were slightly more optimistic increased the average from 1,8 percent in the previous survey to 30,1 percent. This is as a direct result of the more optimistic views expressed by medium size contractors (Refer chart below). As a result the confidence index (based on a nett percentage change), slipped back into positive territory from -15 to 9. Below please find the start of a trend line showing the confidence index for the various firm sizes.



	2013Q1	2013Q2	2013Q3	2014Q1	2014Q2
Large	0.00%	0.00%	-50.00%	-25.00%	-37.50%
Medium	-33.33%	-44.44%	-71.43%	-10.00%	14.29%
Small	0.00%	-50.00%	-80.00%	-33.33%	0.00%

Figure 19: 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, 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.

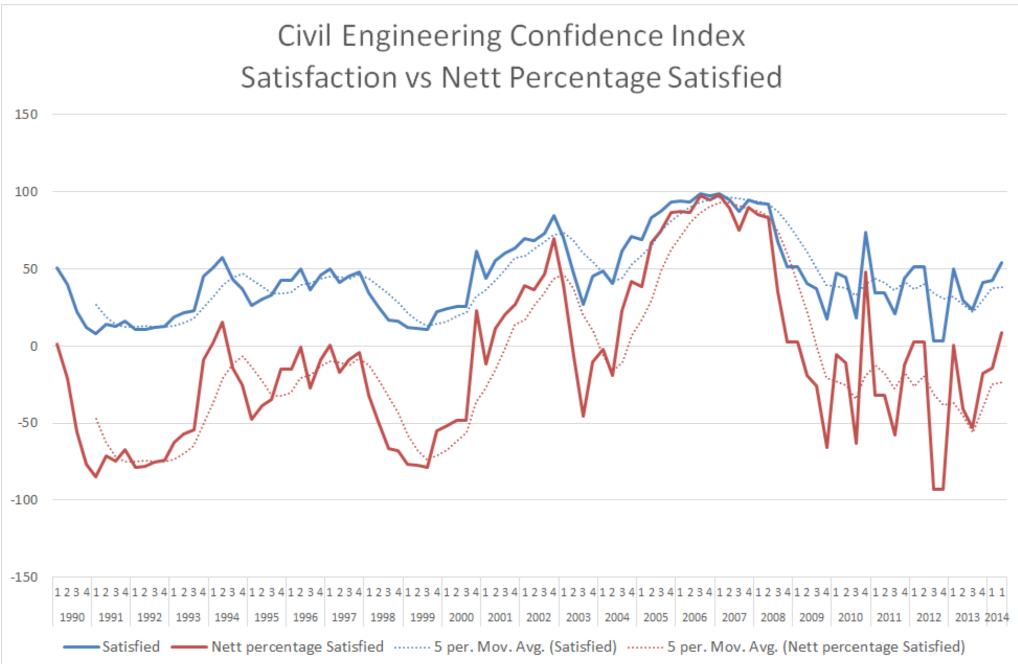


Figure 20: Civil Engineering confidence Index

PROSPECTS FOR 2014 and 2015

The outlook for 2014 is influenced on the one hand by the expected stronger growth in government spending particularly on transport where the strongest growth has been predicted, reduced investment by SOE's while on the other hand 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. Unfortunately the start of 2014 was less optimistic, with negative economic growth and ailing indicators suggesting a possible further contraction in the economy in the 2nd quarter of 2014. This coupled with growing international demand to lower the current account deficit will inevitably translate to a cut in government spending which will have a negative impact on the projected infrastructure spending.

The market has been more favourable for medium size contractors, as contracts are broken down into small more manageable projects, in particularly by the provincial and local governments. However competition has intensified, and margins are under pressure. The growing tendency of late payments could create havoc amongst especially smaller to medium size contractors as they are unable to carry the additional cash flow burden.

The industry experienced another tough period in the 1st quarter of 2014, yet there are signs that profitability amongst larger firms has started to stabilise. 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. The impact of penalties payable by companies involved in bid rigging, is also starting to filter through and will have a lesser impact on this year's profit margins.

The Department of Higher Education and Training has called for comments on the national scarce skills list, with skills represented by the construction industry, at the top of the 100 scarcest skills. This is not surprising at the methodology followed included input from the NDP and the SIP's which is strongly focussed on improving infrastructure. However, as engineers are ranked top 3 of the list, reports were also released depicting the poor performance of SA's education system, particularly in terms of science and maths where SA ranked last out of 148 countries.

The first progress report was also released on the Construction Sector Scorecards monitoring progress in terms of transformation. While progress has been made, it is still deemed as too slow, including the transformation of women in the industry. As regular progress reports are released, improving both accountability and monitoring of transformation, progress should start to improve at a faster pace.

Challenges that continue to hamper growth potential in the industry, include project delays following the election period, 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 effective planning and implementation of projects), delays in adjudication by government tender committees, proposed policy amendments, including the introduction of new sector codes and strike action affecting capital expenditure in the mining industry.

CIVIL ENGINEERING PRICE MOVEMENTS

Input cost price movements based on the Baxter contract price adjustment formula (CPAF) averaged 6,6 percent in the 1st quarter of 2014, compared to 6,1 percent in the fourth quarter of 2013 and 7,0 percent y/y 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 12,1 percent y/y in the 4th quarter, from 5,8 percent in the previous quarter, while the plant index increased by 8,7 percent. Price pressures are muted in terms of materials. The composite material index increased by an average of 3,9 percent in the 1st quarter, from 5,0 percent in the previous quarter. 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. 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.

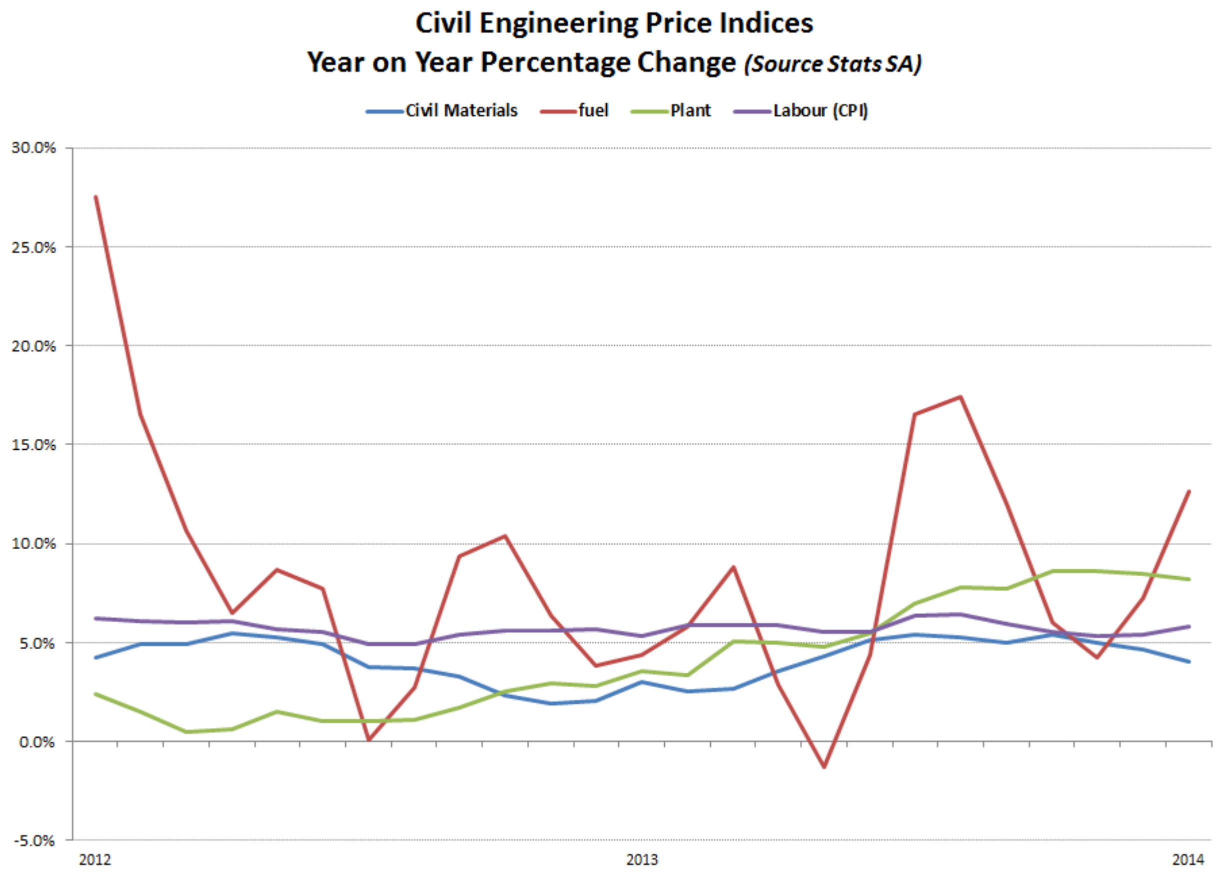


Figure 161: Civil Engineering price movements (source Stats SA)

Table 71: 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 12: 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 13: 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	106.3	216.5	118.0	111.7	142.1	3.9%	5.9%	12.1%	8.7%	6.6%
	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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    c. Consumer Price Index
    d. Production Price Index
6. FNB/BER confidence Indices
7. Estimates of National Expenditure Reviews (Treasury)

Annexure A

Table 14: 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

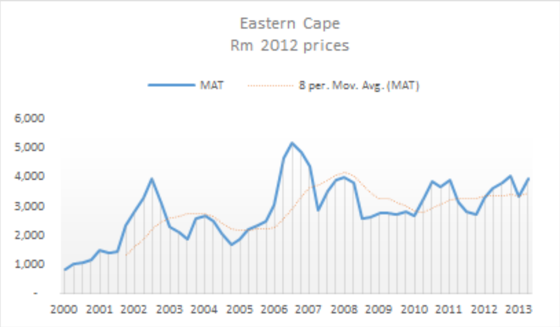
Table 85: Public Sector Infrastructure Breakdown (Rm, current prices)

	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 B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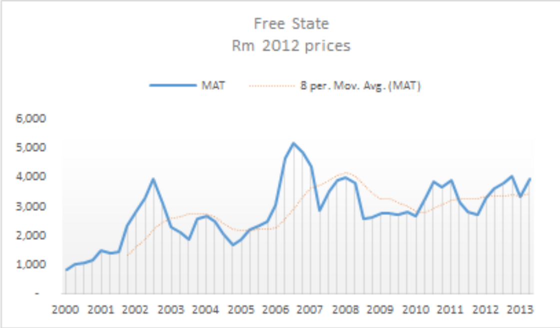
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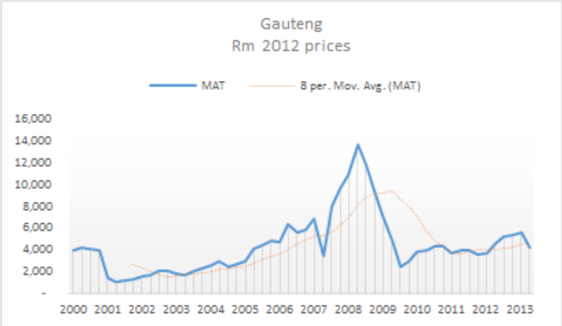
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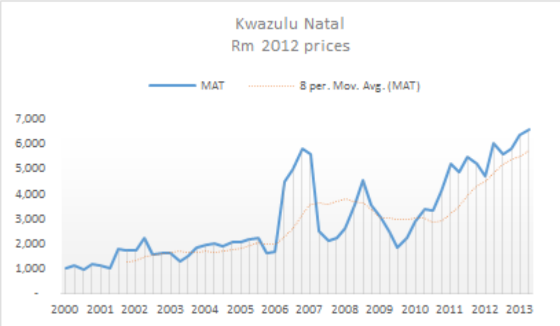
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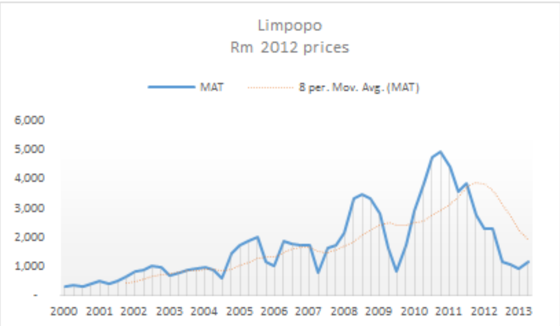
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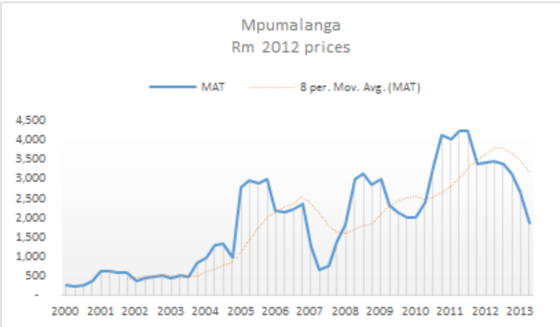
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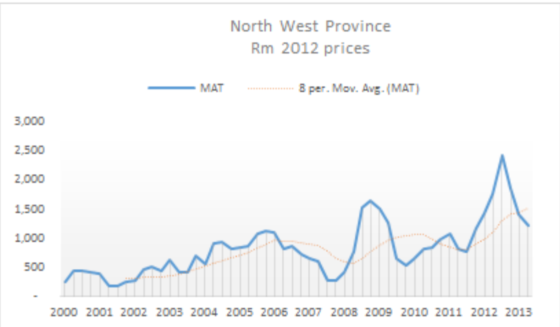
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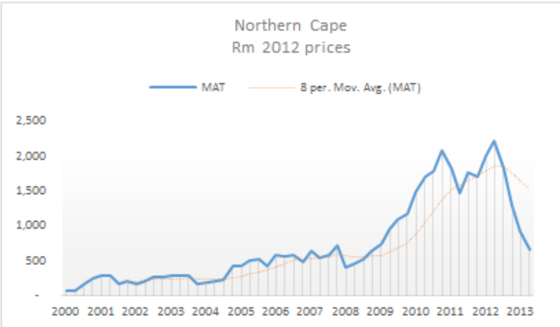
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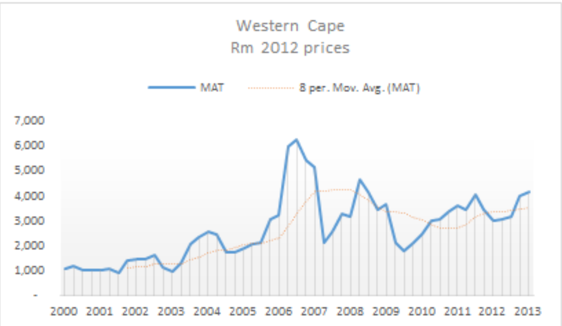
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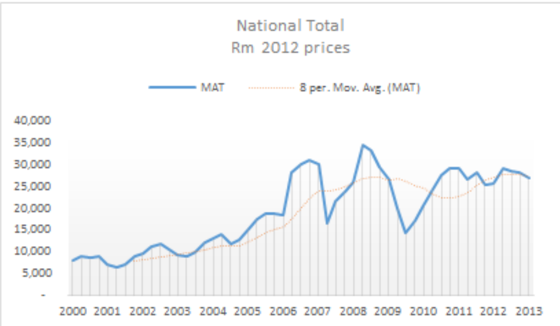
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