Highlighting trends in the South African construction industry

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Highlights

	Current year R 'billions	Prior year R 'billions	Difference R 'billions	% change
Total revenue	144.6	154.2	(9.6)	(6%)
Net profit	1.1	2.4	(1.3)	(54%)
Net operating cash flows	2.4	2.1	0.3	13%
Distributions to shareholders	0.8	0.9	(0.1)	(11%)
Total assets	90.6	93.1	(2.5)	(3%)
Secured order book	171.2	178.2	(7)	(4%)

This is the third edition in our series of publications highlighting trends in the South African construction industry. We trust it will provide meaningful information to industry participants in evaluating performance and addressing risks. In the previous year we included the Construction and Materials Index of the Johannesburg Stock Exchange (JSE). This year we refocused on the Heavy Construction Index to allow for a more meaningful analysis.

The construction industry is a significant contributor to employment and growth in South Africa however the industry has been in a slump since the 2010 Soccer World Cup projects. The 2015 financial year got off to a poor start, with the construction industry being adversely impact by the metal-workers strike in July 2014 and further instances of labour unrest internally and at clients and suppliers thereafter. This resulted in delays on significant projects in the country. Government's Infrastructure Plan aims to address the infrastructure needs of South Africa over the next few years however this will require input from and co-ordination with the construction sector, to be successful.

Scope

Our findings are based on the financial results of the leading heavy construction companies listed on the JSE.

We excluded companies with suspended listings. Section 11 of this report provides a comprehensive list of all companies included in our analysis.

The nine heavy construction companies included in this report are the same as for the prior year.

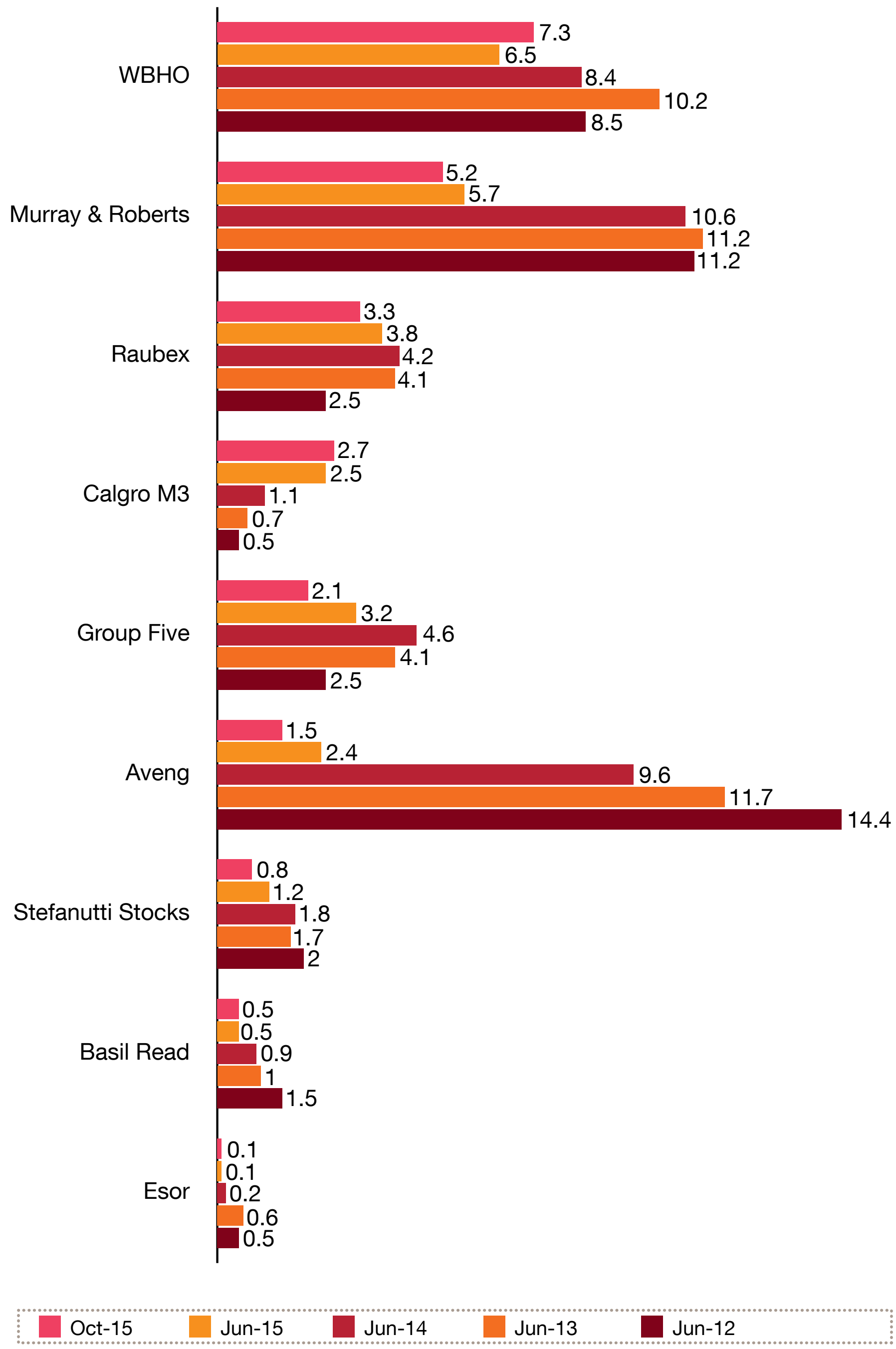
Our findings are based on publicly available information, predominantly annual reports, for financial years ending no later than 30 June 2015. Where annual reports were not available, we used preliminary reviewed results.

The South African construction industry

Market capitalisation

From variable levels of market capitalisation performance in 2014, this year largely reflected the negative outlook experienced by the listed heavy construction industry. Market capitalisation reflects the organic growth or regression, merger and acquisition activities, and market expectations in an industry.

Figure 1: Market capitalisation of the heavy construction companies (R'billion)



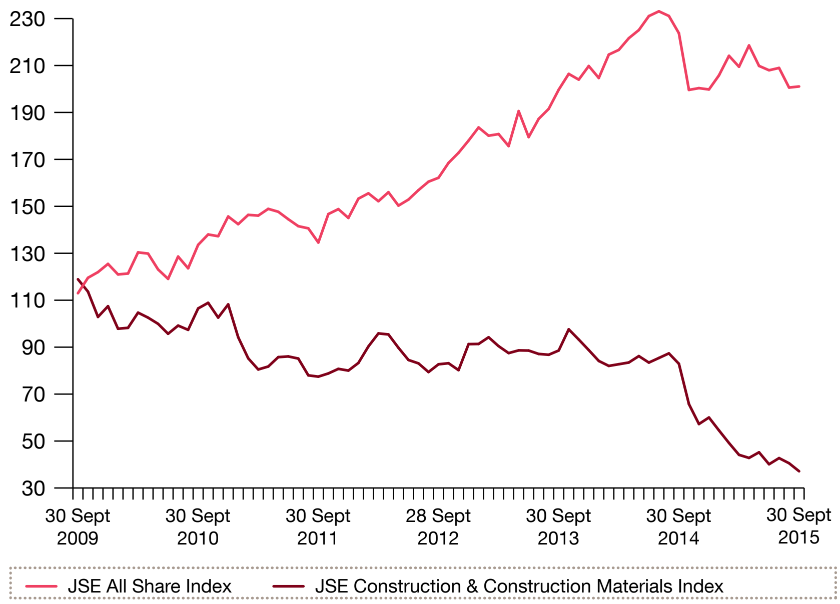
Source: I-Net Bridge

The 2015 financial year saw a decline in market capitalisation performance. Eight of the nine companies reflected a decrease in market capitalisation, with Aveng and Esor showing the largest individual decreases. Calgro M3 was the only company that showed an increase in market capitalisation. In aggregate for the nine companies analysed, market capitalisation decreased by 38% to R25.9 billion as at 30 June 2015 (R41.6 billion as at 30 June 2014).

After June, market capitalisation showed mixed results, with WBHO and Calgro M3 reflecting an increase in market capitalisation and the remaining seven companies reflecting further decreases. In aggregate, the nine companies analysed showed a further 9% decline over the three months from 30 June 2015 to 31 October 2015.

The difference in the performance of the JSE Construction and Materials Index and the JSE All Share index is unmistakable.The All Share Index reached new record levels in the past year, while the Construction and Materials Index continued to decrease year on year.

Figure 2: Market capitalisation: JSE vs Construction Index



30 June 2009 = 100
***Source**: I-Net Bridge*

It is clear that the construction industry has been struggling in the last few years.

A good indicator of the industry's performance would be the infrastructure spend by the public sector. The South African Government's ongoing National Development Plan and its continued commitment to public infrastructure investment of R810 billion (R847 billion 2014) over the next few years are still positive. However, the reduction in planned expenditure over the next three years highlights the tough economic environment experienced by the country and therefore by the heavy construction industry, which benefits from infrastructure development.

Public sector spending

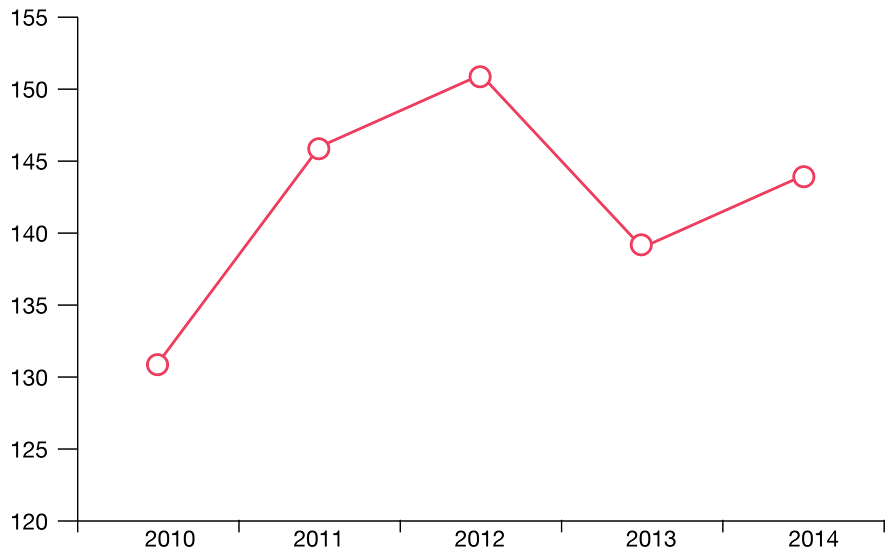
Capital expenditure by public sector institutions increased by 13% in the 2014 public financial year, with total expenditure in the year amounting to R255 billion. The scale of this increase may be misleading as the new construction work contracted increased by 3% to R125 billion, while plant, machinery and equipment purchased increased by 40% to R94 billion. This indicates that the public sector spent less on new construction works.

Figure 3 summarises the capital expenditure relating to new construction, land and existing buildings actually incurred by the public sector for the financial years up to and including 2014. The graph shows an effective annual increase of 2.3% in the expenditure growth trends since 2010. Fiscal pressures in the lower economic growth environment have already impacted on discretionary capital expenditure and are bound to impact future expenditure as well.

Construction input cost inflation was also well above Consumer Price Index inflation. The marginal growth in public capital expenditure therefore reflects a real decrease in public sector driven capital expenditure.

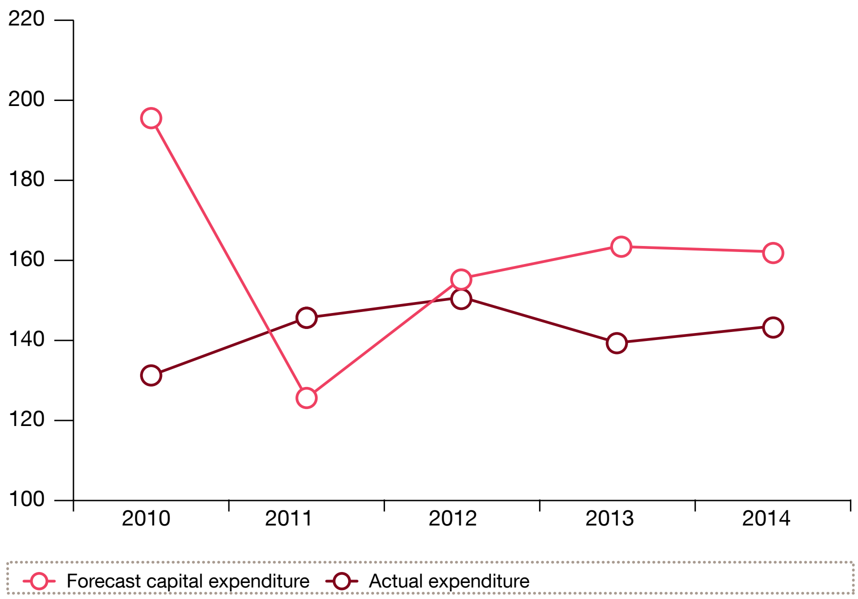
With the pressure on margins experienced by the industry, it should be noted that the graph reflects growth for buyers of construction services, but not real growth for the construction companies themselves.

Figure 3: Public expenditure: New construction, land and existing buildings (R'billions)



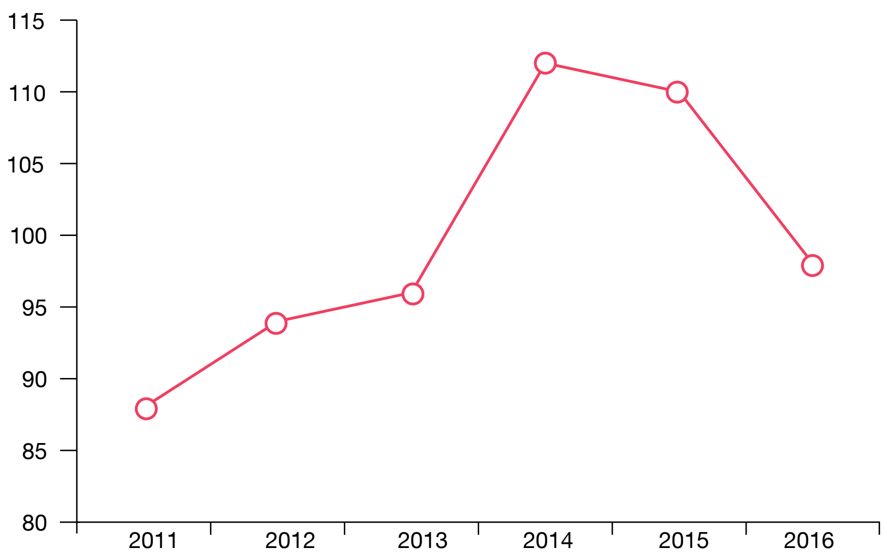
Source: Stats SA

Figure 4 Comparison of actual construction expenditure with forecasts R'billions)



***Source**: Stats SA*

Figure 5: Capital expenditure by Eskom, Transnet and Sanral with capital commitments for 2016 (R'billions)



Source: PwC analysis, annual reports for Eskom, Transnet and SANRAL

Figure 4 compares the actual capital expenditure relating to new construction, development of properties and major rejuvenation projects incurred by the public sector with the forecast from the preceding year. Actual new construction expenditure in 2014 was R18.6 billion below the 2013 forecast. This decrease in anticipated expenditure underlines the challenges experienced by the industry.

The bulk of public sector capital spending is undertaken by Eskom, Transnet and South African National Roads Agency Limited (SANRAL). The data shown in Figure 5 is the aggregated actual and expected capital expenditure by Eskom, Transnet and SANRAL.

The SANRAL and Eskom have been reliable sources of work for the construction sector in the past number of years. The bulk of the decrease in 2015 and the commitment for 2016 relates to Eskom. Government remains committed to its significant capital expenditure on the construction of the Medupi and Kusile power stations. Unfortunately, over-expenditure on the Eskom projects and the funding debate at SANRAL seem to be overshadowing real growth in infrastructure added.

With the announcement that the Commonwealth Games of 2022 will be held in Durban, the public sector is bound to invest in infrastructure. As to date we are not aware of how much will be spent on infrastructure in the future.

The private sector is another big player in the industry, often led by the mining industry, and has been a significant contributor to total construction expenditure. However, the severe pressure experienced in the mining sector, with shrinking margins due to volatile commodity prices and labour unrest, will no doubt have an impact on future demand.

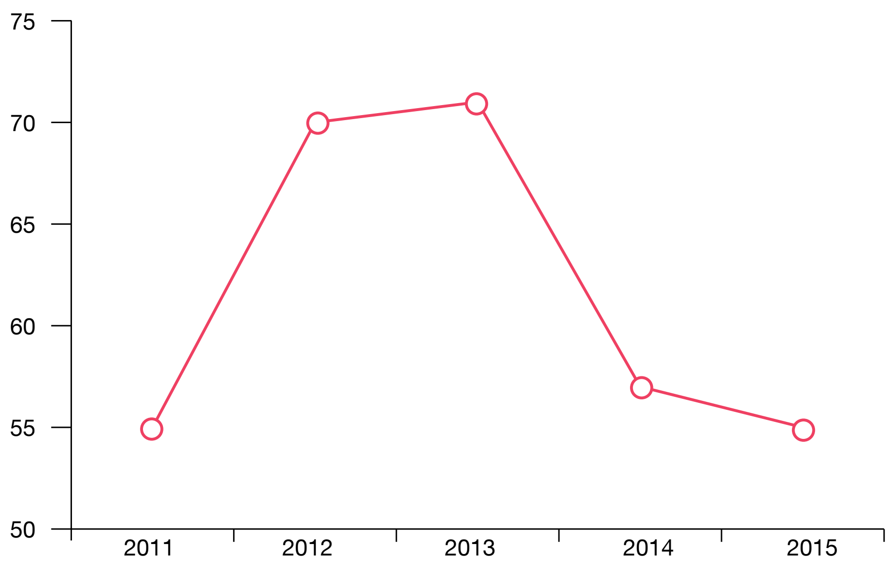
After a few difficult years, mining companies have already reduced their annual capital expenditure by R16 billion over the last two years. All indications are that this expenditure will reduce even further over the next few years as mining companies struggle for survival in the lower commodity price cycle.

The data in Figure 7 represents the energy sector's capital expenditure per quarter for years to June of the past five years. An amount of R79 billion was spent in 2015 (2014: R73 billion), which shows excellent growth over the last few years.

Sustainable energy investments in South Africa, mainly in the form of solar and wind farms, were a significant contributor to capital expenditure in the last year. A public-private sector partnership known as the Renewable Energy Independent Power Procurement Programme (REIPPPP) was introduced in 2011. The Department of Energy procured 5 243 MWs of renewable energy in bid windows 1 to 4. The programme has secured a commitment of about R170 billion in capital investment for the South African economy. Since 2012, South Africa has ranked among the top ten countries globally in terms of renewable energy investments by independent power producers.

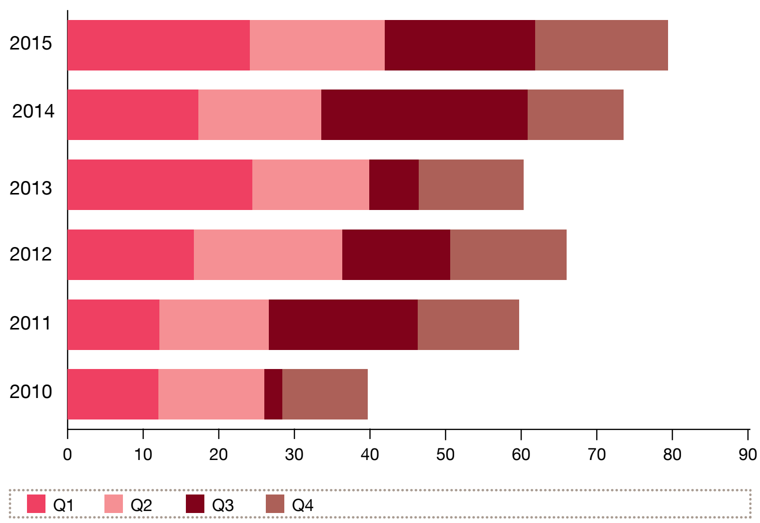
The US International Energy Agency (IEA) estimates that only a third of the population in sub-Saharan Africa have access to electricity, leaving the remaining two-thirds, 620 million people, without electricity. Funding is paramount to the development of sustainable energy solutions to remedy this predicament. Sub-Saharan Africa lacks the financing to fund the necessary development, and the IEA has recommended that R4.9 trillion be invested in the region's energy sector.

Figure 6: Capital expenditure for the mining sector (R'billions)



Source: *PwC's SA Mine for 2015*

Figure 7: Capital expenditure for the energy sector (R'billions)



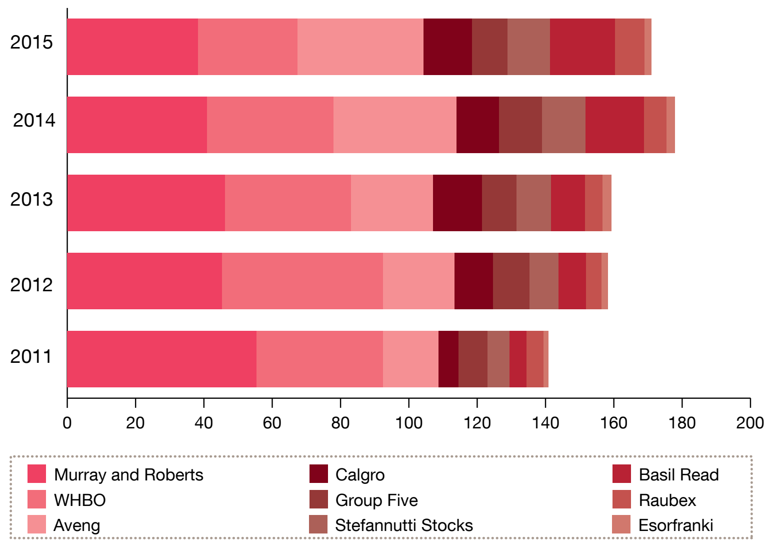
Source: *Stats SA*

Heavy construction order book

A secured order book is defined in various ways, and the consistency of information disclosed is not necessarily comparable. This is the first time in five years that the secured order book decreased (4%) on the prior year. The secured order book only covers 1.32 times current-year revenue, a marginal increase on 1.28 in the prior year. The increase was as a result of an even bigger decrease in revenue.

The current-year order book reflects the impact of subdued domestic economic growth. Lower expenditure on government infrastructure and by resource companies, in particular on oil and gas developments, has undoubtedly reduced order books. As lower commodity prices are expected to stay low for longer, the declining trend in investments by resource companies and expenditure by governments of resource-based economies is set to continue.

Figure 8: Secured order book (R billions)



***Source**: PwC analysis*

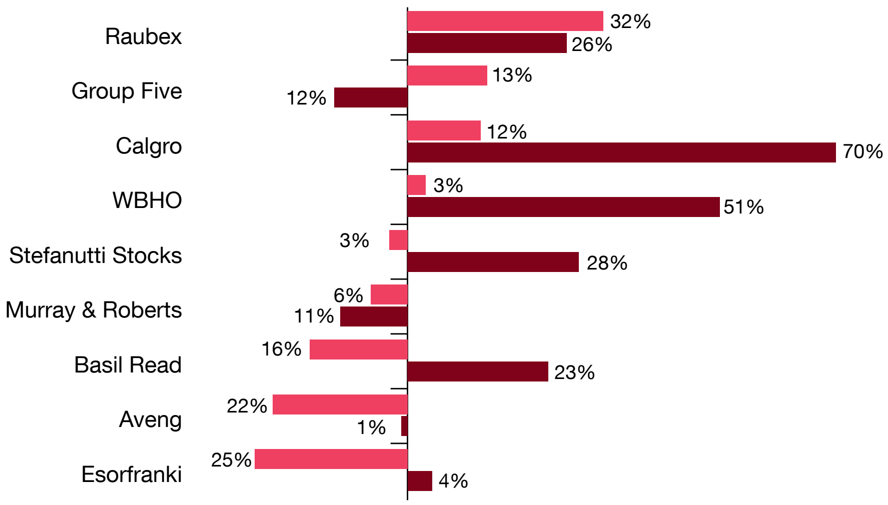
Raubex's order book reflected another excellent growth year with an increase of 32%. This increase was mainly supported by their large roads projects in Zambia. However, their underlying business has been growing well above average for the last number of years.

Calgro's order book showed another increase of 12% this year after it acquired the Tanganani Extension 14 project from Esorfranki. They continue to have success with their integrated development projects in the governmental housing sector.

Group Five's order book growth of 13% is mainly as a result of new cross-border work which offset local decreases. Their African cross-border order book is now at 39% of their total order book.

WBHO growth of 3% was as a result of a strong buildings and roads position which offset challenges experienced elsewhere.

Figure 9: Secured order book growth

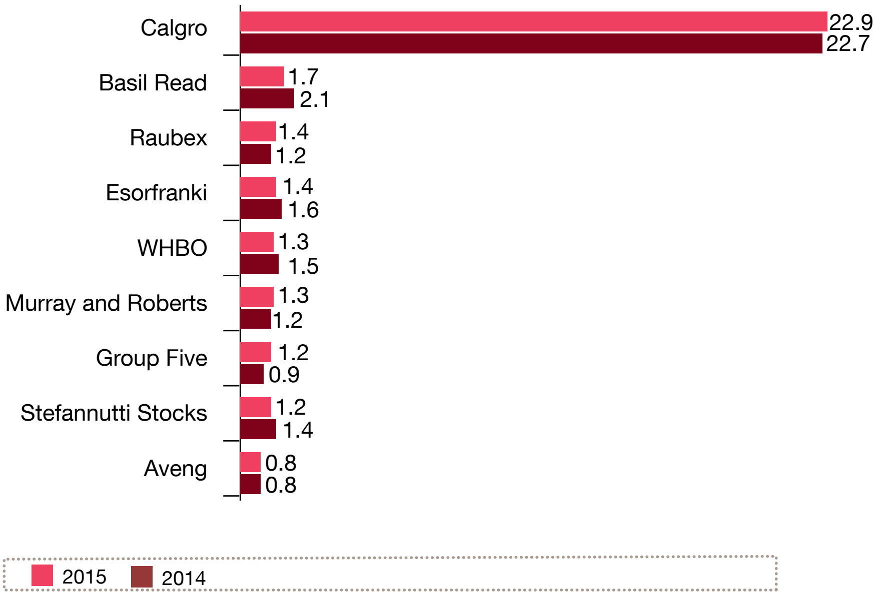


***Source**: PwC analysis*

Apart from Calgro with its secured order book to construction revenue multiple of 22.9, companies' secured order books were between 0.8 and 1.7 of construction revenue (prior year: 0.8 and 2.1). Calgro's high multiple is as a result of equity-accounted investments, which do not reflect income in revenue even though they are included in the order book. When normalised for the impact of equity accounted investments, Calgro's multiple decreases to 12.2. However, a large portion is expected to materialise after five years, which is an indication of the long-term nature of integrated housing development project roll outs.

Murray & Roberts, Raubex and Group Five were the only entities that improved their multiples.

Figure 10: Secured order book as a multiple of construction revenue



***Source**: PwC analysis*

Integrating risk for performance

With the downturn in the global economy and harsher operating conditions in South Africa, risk management continues to be a vital component of effective management in the South African construction industry. In order to be competitive, companies need to not only appropriately manage their risks but also competitively price the risk element in their tenders for business. In order to remain sustainable during this difficult period, companies need to be proactive towards potential risks in order to compete.

The common key risks identified by the companies included in the analysis are set out below.

Common risks identified by heavy construction companies analysed

Challenges	Actions required by industry	Rating
B-BBEE and transformation		
In 2007, the Department of Trade and Industry brought into effect the Construction Sector Charter on Black Economic Empowerment. Compliance with the Charter by the industry is seen as not only socially but also economically imperative. In May 2015, the new B-BBEE codes were gazetted. The amendments to the codes significantly changed the manner in which companies' B-BBEE status (or level) is calculated, as the number of B-BBEE points required to achieve a particular B-BBEE level has been increased. The new codes may impact companies' transformation rating. Non-compliance with employment equity and B-BBEE requirements could negatively impact companies in the following manner: • Reduce their ability to win tenders; • Increase the likelihood of client sanctions; and • Increase the possibility of penalties being imposed on South African projects.	Monitoring of compliance with B-BBEE codes and employment equity targets is imperative in the South African construction industry. Construction companies increase their participation in discussions over the new B-BBEE codes while adjusting business practices to be compliant with new codes.	HIGH
Industrial action		
Ongoing industrial unrest in South Africa continues to cause project delays and disruptions. It also adds a further hurdle to the decision-making process for investment in new capital projects, particularly in the mining sector. Strikes have reached a new level in terms of number, duration and violence and have inflicted significant damage to the economy in both the short and medium terms. This has had an impact on both project and business performance. The recent wide-scale and prolonged industrial action has placed pressure on the underlying contractual relationships. There is a risk of not being compensated for losses due to lost time and disruption.	In order to mitigate the risk of labour unrest and prevent significant project disruptions and delays, open communication between unions and construction companies to monitor and resolve potential labour issues is essential.	HIGH

Challenges	Actions required by industry	Rating
Talent management and staff retention		
South Africa's construction industry has grown significantly in size over the last decade, resulting in a skills shortage in the industry at all grades. Loss of skills and expertise affects the ability of companies to successfully complete contracts and undermines expansion. Growth strategies place high demands on companies to maintain appropriate leadership capacity.	A remuneration policy focusing on performance and retention of key talent is essential for the sustainability of a business. Regular succession reviews to identify potential talent retention risks and career planning strategies should be undertaken, as should training and development initiatives.	HIGH
Growth and expansion		
Growth in the South African construction industry has declined in recent years due to: • The decline in business confidence and the volatile labour market, which have resulted in reduced foreign investment in the country, especially in the construction industry; • Government's reduced spending on infrastructure projects; • Competition in the industry, which has continued to drive down margins; and • Expansion into new markets, which has also been hampered by volatile commodity prices and exchange rates.	In order to address the risks posed to growth and expansion, companies need to: • Focus on effective contract negotiation on equitable terms, and efficient contract management; • Explore growth options in new and emerging markets; and • Align capacity with planned SA Government spend.	MEDIUM
Project execution		
The competitive nature of the market, combined with skill shortages, places pressure on companies to deliver on projects. Poor execution of contracts results in margin erosion and losses. This includes the risk of poor quality control on site, which results in rework, increased costs and delayed delivery of contracts.	The implementation and monitoring of project management procedures and policies over the life cycle of a project and the assignment of accountability are imperative in mitigating the risks posed to project execution.	MEDIUM
Liquidity risk		
Cash constraints are a risk to companies' ability to make additional acquisitions and meet growth targets. The following factors have contributed to the liquidity problems experienced by construction companies: • The decline in margins and tough trading conditions across the industry; • Significant initial cash investments required for new projects; • Delays and disruptions in projects caused by industry unrest; and • Final commercial close-out of projects resulting in significant amounts of cash being locked up in working capital.	It is essential that cash-flow requirements over the life of a contract be considered at the tendering stage. Close monitoring and management of outstanding claims and project overheads is also essential to mitigate liquidity risk.	MEDIUM

Challenges	Actions required by industry	Rating
Health, safety and environmental sustainability		
Construction is inherently a high-impact and dangerous industry. Any major incident, as was seen with the pedestrian bridge collapse in Sandton, while a tragedy in its own right, also has implications for the reputation and ability of the entity to procure work in certain sectors.	Health, safety and environmental statistics have improved in recent years. However, regular monitoring and reporting of statistics is required across the industry.	MEDIUM
Legislative and regulatory compliance		
The increasingly complex regulatory landscape requires entities to meet new regulatory requirements and stakeholder expectations while supporting performance objectives, sustaining value and protecting the brand. Following investigations by the Competition Commission, sanctions may be imposed by the Construction Industry Development Board. Amendments to the B-BBEE scorecard for the construction industry pose a serious new risk.	Compliance with regulatory and legislative requirements is imperative in preventing loss to a business and maintaining a company's reputation in the industry.	LOW
Tender risk		
The tendering process requires educated and highly judgmental views to be taken on pricing, mark-up, geological conditions, and the quality and availability of materials. There is a risk of bidding for and winning contracts on onerous terms or under unacceptable commercial conditions.	To mitigate tender risk, extensive tender risk assessment procedures need to be undertaken at the tendering stage of each project.	LOW
Credit risk management		
Challenging conditions continue to be experienced in the South African construction market with an increasing number of customers showing signs of distress as a result of competitive pricing. These conditions result in higher levels of credit risk for companies in respect of their private customer base.	Companies need to implement strict credit management policies and procedures to minimise credit risk posed by customers.	LOW

The impact of the new B-BBEE codes

In May 2015, amended B-BBEE codes were published with more emphasis on direct black ownership and control of companies. The amendments have major implications for businesses operating within the South African market, and the construction industry is not exempt from these implications. With transformation and B-BBEE compliance already a high risk for the construction giants at the current codes, the amended codes will definitely elevate the risk.

The tables below show the changes in the codes and the top construction companies' current levels and ratings.

B-BBEE level	Amended codes	Current codes
1	≥100	≥100
2	≥95 but <100	≥85 but <100
3	≥90 but <95	≥75 but <85
4	≥80 but <90	≥65 but <75
5	≥75 but <80	≥55 but <65
6	≥70 but <75	≥45 but <55
7	≥55 but <70	≥40 but <45
8	≥40 but <55	≥30 but <40
NON-COMPLIANT	<40	<30

***Source**: PwC analysis*

The heavy construction companies disclosed the following B-BBEE ratings:

Company	B-BBEE level
Aveng	3
Basil Read	2
CALGRO	3
Esorfranki	3
Group 5	2
Murray & Roberts	2
Raubex	3
Stefanutti	2
WBHO	2

***Source**: PwC analysis*

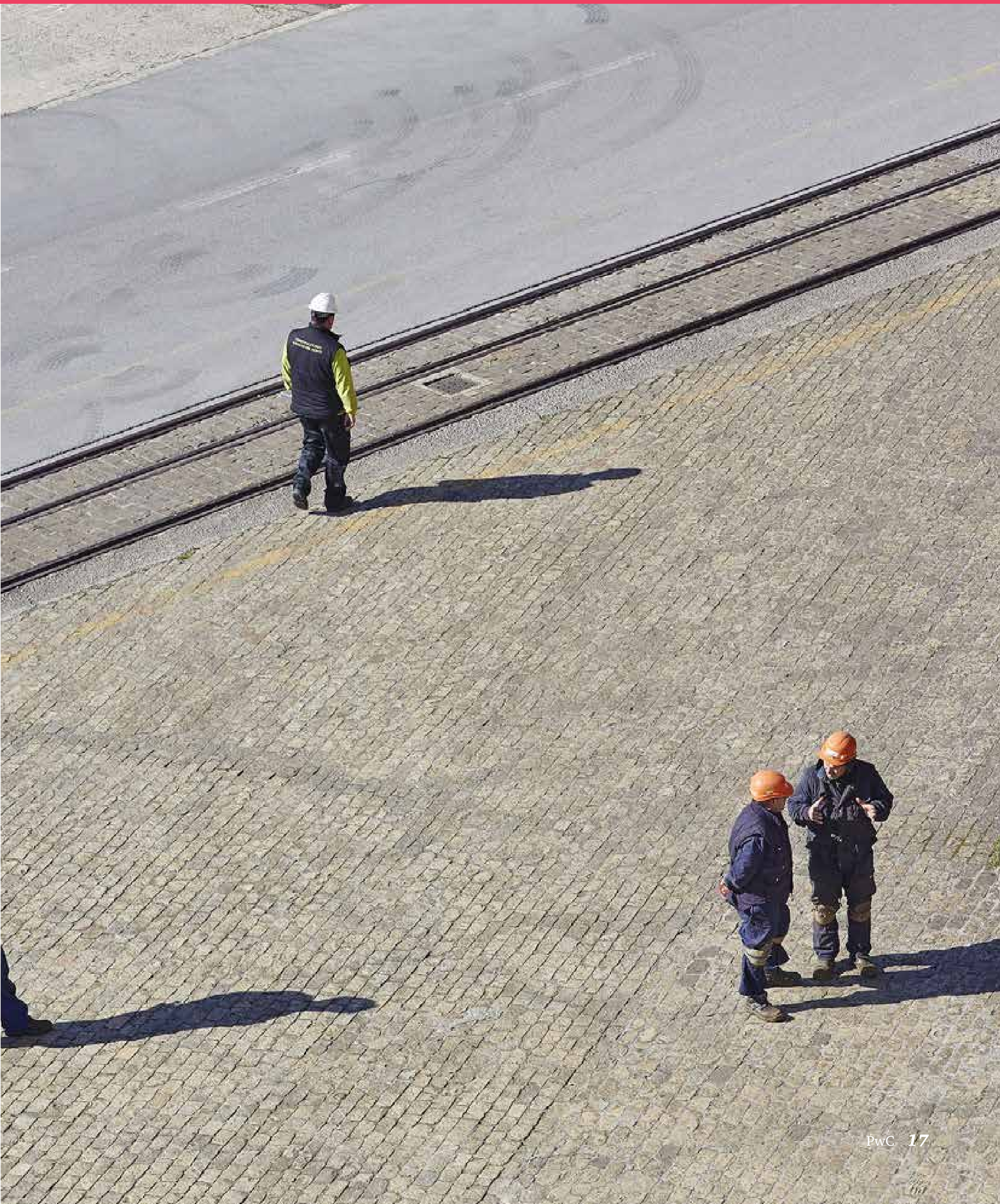
A comparison between the current and the amended B-BBEE codes shows that some construction companies are at risk of their B-BBEE levels being downgraded in terms of the new codes. This holds major implications for the construction industry for the following reasons:

- Clients require a minimum B-BBEE status from suppliers: and
- A minimum B-BBEE status is required for Government licences, permits and other authorisations.

Another big change is the increase in the weight of black ownership in calculating the score. Listed shares are still being considered as indirect black ownership (black people are share owners through pension funds and other mandated investments). It appears as though medium-sized unlisted companies may be hit hardest by the amendments' focus on black ownership.

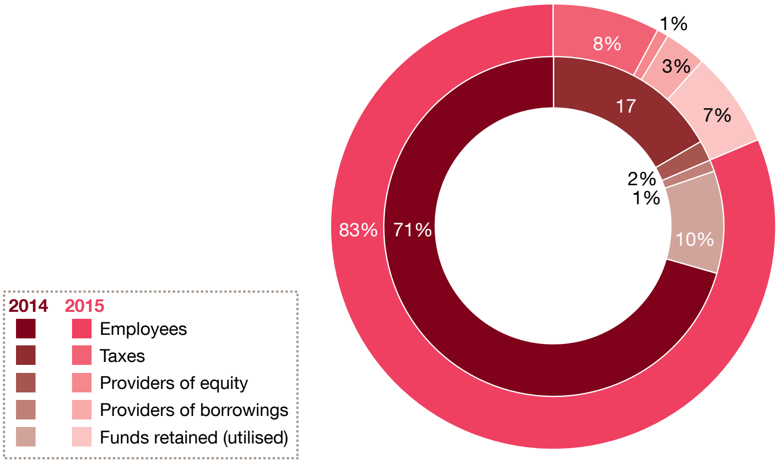
Construction companies will have to review their current B-BBEE strategy to assess the impact of these changes and take steps to try and maintain their existing B-BBEE rating in order to continue to be competitive in the industry.

Value added



The value-added statement is becoming an increasingly significant part of a company's corporate social reporting. This statement indicates the wealth or value created that is attributed to all stakeholders rather than just the shareholders, measured by the company's utilisation of capacity, capital, workforce and other resources. The construction sector adds significant value to our country and its people. Stakeholders in this sector include employees and the unions representing them, the Government as regulator and custodian of the country's tax income, investors, suppliers and customers. Seven of the nine companies included in the construction industry analysis, comprising 69% of the revenue earned by all companies considered, provided readily available value-added statements. Figure 11 shows how the value created, being the difference between income and direct purchases, was distributed to the various stakeholders.

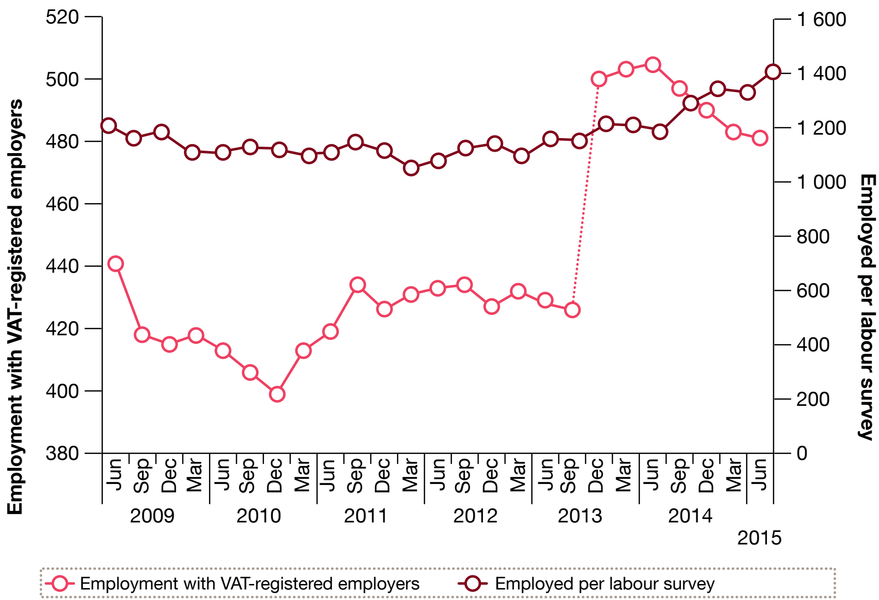
Figure 11: Distribution among stakeholders of value added by heavy construction industry



***Source**: PwC analysis*

The value received by employees represented 83% (2014: 71%) of the value created. This is a significant contribution to the labour market. According to the Quarterly Labour Force survey of activities conducted by individuals aged 15 to 64, which is carried out by Stats SA on a household-based sample, more than 1.4 million people are employed by the construction industry, either on a contract basis or permanently. At an 18.6% increase compared to the prior year, the industry was one of few to show a double-digit increase. The employment of workers largely depends on the construction activity in the country and can vary with the economic cycle, as illustrated in Figure 12.

Figure 12: Number of employees in the construction industry



**The composition of the Stats SA survey companies changed giving rise to the big difference in December 2013*

***Source**: Stats SA*

The percentage of value created that is collected by providers of debt has remained consistent with that of the prior year at 1%. This low percentage reflects the fairly conservative levels of gearing in the South African construction industry.

The 1% (2014: 2%) received by providers of equity reflects the current low levels of return for shareholders.

The state received 8% (2014: 17%) of value created in the form of direct taxes. The lower percentage received is indicative of the poor financial performance of the sector. The reality is that the state receives significantly more if one takes into account the tax on employee income deducted from employees' salaries and net indirect taxes like VAT.

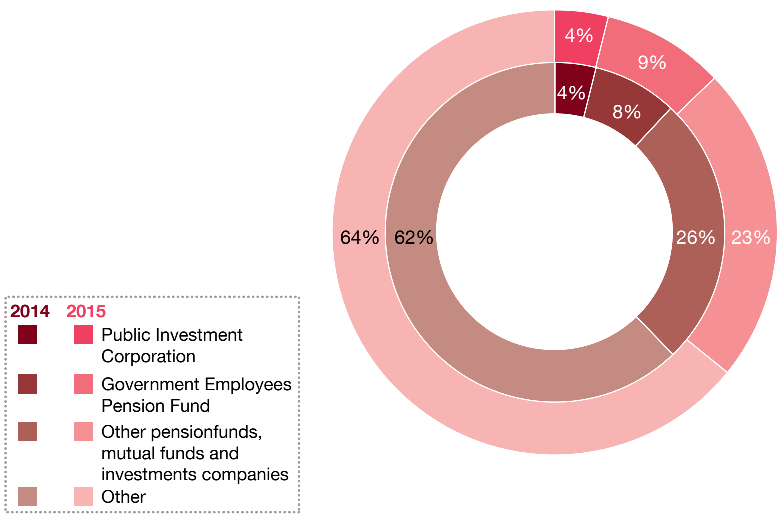
Shareholders

A reasonable return to shareholders is needed in order to attract sufficient investment into an industry. In analysing the shareholding (5% or larger) in construction companies, the importance of this industry to the South African economy is clear. Investment in the industry not only supports domestic economic growth and job creation but also contributes to the creation of wealth for pensioners and investors.

Figure 13 shows the extent of investments in the South African construction industry by public-interest investors such as the Government Employees Pension Fund (GEPF) and the Public Investment Corporation (PIC). Together, their investment represents 13% (2014: 12%) of market capitalisation in the sector. Major investment by other pension funds, mutual funds and investment companies makes up a further 23% (2014: 26%) of the total investment in the industry.

Although inconsistent disclosure and limitations to what is disclosed mean that the graph is by no means a complete or even accurate reflection of individual shareholder categories, it does reflect the importance of the industry for the population at large.

Figure 13: Shareholder profile



***Source**: PwC analysis*

Tax developments

Navigating international tax waters

The globalisation of economies and the removal of trade barriers between countries have resulted in multinational groups developing their business models on a global scale. In line with this, companies within the construction industry have also vastly expanded their global footprint as opportunities to construct mines, plants, office parks, retail shopping centres, hospitals, schools and roads are sought beyond the borders of South Africa.

Having regard to the global climate in which construction companies now operate, the current hot topic issues that multi-national construction groups need to consider are base erosion and profit shifting (**BEPS**), paired with the imminent country-by-country reporting (**CbCR**) regime and South Africa's newly concluded double taxation treaty (**DTT**) with Mauritius.

BEPS and CbCR

In response to the risks to tax revenues globally, the Organisation for Economic Co-operation and Development (**OECD**) was tasked with investigating the tax strategies of multinational companies. A key focus of the OECD in investigating these tax strategies has been the development of an action plan to counter BEPS, which many revenue authorities consider to be a significant form of tax evasion.

Broadly speaking, BEPS describes tax planning strategies that rely on mismatches and gaps that exist between the tax rules of different jurisdictions. These strategies are designed to minimise the corporation tax that is payable overall by either making tax profits 'disappear' or shifting profits to low-tax operations where there is little or no genuine activity. In most cases BEPS strategies are not illegal but do exploit the differences in the tax rules between different countries.

In 2013, the OECD published an action plan with regard to BEPS. This action plan set out in detail 15 action points focused on addressing what is perceived to be flaws within the international tax system. Part of the 15-point plan is to reform transfer pricing documentation, specifically introducing a mandatory form of reporting to tax authorities to enhance the transparency of revenues, profits, taxes and other measures of substance across the globe.

As part of this new focus on multi-national groups' global tax position, the OECD has proposed a three-tiered approach with regard to reporting cross-border transactions:

- The preparation of an overall 'master file' containing information about the group, including its organisational structure, a description of its business, intangibles, and its financial and tax positions. The 'master file' would be prepared by the multi-national group's holding company;
- The preparation of a 'local file' that is more akin to certain current local transfer pricing documentation requirements, prepared by each operating entity within the multi-national group; and
- A CbCR regime.

The most significant development in the OECD's proposed approach to reporting on cross-border transactions is without a doubt the introduction of the new CbCR regime.

This regime is likely to take the form of a reporting template[1] that would require disclosure on a country-by-country basis of the following in respect of each operating entity within a multi-national group:

- Revenues (split between related parties and unrelated parties);
- Earnings before income tax;
- Income tax paid (including WHT);
- Current income tax charge;
- Stated capital and accumulated earnings;
- Number of employees; and
- Tangible assets other than cash and cash equivalents.

It is envisaged that the second section of the CbCR template would require a listing of the tax residency of every entity in each country, identifying where these entities are incorporated and where they are tax-resident. This section of the CbCR template would contain additional information requirements, set out in a list of options for selection, which would serve to interrogate the entity's place of effective management.[2]

1 Per the package of measures for the implementation of the new CbCR plan developed under the OECD/G20 BEPS project, as released by the OECD on 8 June 2015.

2 Information to be disclosed would include the location of economic activity within the group, information about which entities do business in a particular jurisdiction and the business activities each entity engages in.

These reports will be required to be completed for multi-national groups for years of assessments beginning on or after 1 January 2016 where the group has a consolidated turnover of R1 billion. Moreover, it is the ultimate holding company that carries the responsibility for submitting the CbCR to its local revenue authority, which is fully entitled to share the information with its counterparts across the globe.

It is therefore advisable that qualifying South African multi-national groups consider the reporting and disclosure requirements surrounding CbCR as a matter of priority, as these requirements are likely to pose an increased compliance burden on the ultimate holding company. Gathering and reporting the data in the required format will necessitate a new compliance process, possibly requiring new technologies and/or system changes, but certainly involving the commitment of resources across the organisation.

South Africa's newly concluded DTT with Mauritius

In addition to the pending changes to the reporting of cross-border transactions, 2015 has seen South Africa signing a new DTT with Mauritius with an effective date of 1 January 2016.The new DTT with Mauritius is of significant relevance to multi-national construction groups with Mauritian-based operations.

The most significant change in the renegotiated DTT is (arguably) the fact that the tax residency tie-breaker clause, which determines tax residency of a company in the instance of a dispute between South Africa and Mauritius,[3] is completely substituted with an administrative discretion. In terms of the new DTT, the South African Revenue Service (SARS) and the Mauritian Revenue Authority must 'endeavour' to reach 'mutual agreement' on whether a dual-resident company should be taxed only in Mauritius or only in South Africa. Where an agreement is not reached, the dual-resident company is simply subject to double taxation.

This represents a dramatic turn of events from the previous DTT with Mauritius, which relied on an 'effective management' test to ultimately determine tax residency.[4]Under the new DTT it will simply be up to SARS and its Mauritian counterpart to determine where a dual-resident entity must pay tax. Moreover, such a dual resident will not have an effective legal remedy against any decision or lack of agreement by the revenue authorities. This is because there is no rule in the new DTT in respect of which a court of law may adjudicate a taxpayer complaint. There is also no automatic right of representation for such a taxpayer during the mutual agreement procedures when the two tax authorities decide where it must pay tax.

[3] A dispute would typically arise where an entity is incorporated in one jurisdiction but effectively managed in the other jurisdiction.

[4] Under the tie-breaker clause a company incorporated in one jurisdiction but effectively managed in another jurisdiction would have been deemed to be tax-resident only in the jurisdiction in which it is effectively managed.

It is therefore vitally important for companies incorporated in Mauritius but held through South Africa to be able to clearly prove that the company is indeed effectively managed outside of South Africa. This will reduce the likelihood of SARS claiming that the place of effective management is located in South Africa and will hopefully avoid a situation where the issue has to be decided upon by means of mutual agreement.

On the matter of withholding taxes, these are also radically different under the new DTT.[5]Withholding taxes on interest and royalties were always reduced to 0% under the previous DTT. Under the new DTT, the rate of interest withholding tax is only reduced to 10% and the withholding tax on royalties to 5%.Whilst some may argue that these rates are still lower than the domestic withholding tax rate levied in South Africa (currently 15% in the case of both interest and royalties), the new DTT will effectively increase the tax cost of paying interest and royalties to Mauritius by 10% and 5% respectively.

A final point of importance regarding the new DTT is that under the previous DTT, protection was provided against South African capital gains tax (CGT) where a Mauritian company disposed of shares in a South African land-rich company. The new DTT amends this position so that, very simply put, if the Mauritian non-resident would have been subject to South African CGT under South Africa's domestic law, no relief against CGT is afforded under the new DTT.

[5] The new DTT has been ratified and signed by both territories, but will only be effective 1 January 2016.

VAT developments

A recurring matter that affects the construction industry is the correct VAT treatment in respect of the exportation of goods. Although there are rules governed by the Value-Added Tax (VAT) Act and Regulations or Interpretation Notes thereto, these rules are sometimes unclear. As a consequence, these transactions have also been a focal point of SARS investigations.

It is widely known that the VAT Act entitles a vendor to charge VAT at the zero rate for the export of goods in terms of section 11(1)(a). Further, export transactions are distinguished between direct exports and indirect exports. Exports where the goods are consigned or delivered by the vendor are commonly referred to as direct exports.

The requirements for charging VAT at the zero rate for direct exports are set out in Interpretation Note 30 (IN30), as well as the documentary proof that must be obtained. Conversely, exports where the goods are removed by the recipient/purchaser from South Africa are commonly referred to as indirect exports. Typically, these exports consist of, inter alia, ex-works and free-on-board (FoB) transactions and were previously governed by the requirements set out in the Export Incentive Scheme.

There were a number of discrepancies between the previously issued IN30 and the Export Incentive Scheme in terms of the documentation required and the timing to obtain it, not to mention the VAT treatment of certain types of export transactions that were entered into. In this regard, a new Export Regulation (Regulation No. 316) was issued by the Minister of Finance on 2 May 2014, and SARS issued a new version of IN30 (issue 3) on 5 May 2014 to align the requirements set out in the respective publications.

The most significant change introduced in the new Export Regulation is the inclusion of the zero-rating of exports by road or rail. However, this concession is dependent on strict documentary requirements by all parties involved in the supply chain, to a point that it could become onerous for the supplier/seller to adhere to or obtain all the documentation. In addition, the Export Regulation also requires that the exports by, inter alia, road must be performed by the recipient's nominated agent, which is located in South Africa and is registered in terms of section 59A of the Customs and Excise Act. These requirements add to the administrative burden of complying with the requirements sets out in the Export Regulation.

The above said, the positive benefits of these changes/issue of the Export Regulation and the new IN30 are, amongst others, the alignment of the requirements with regards to the time periods in which the goods must be exported as well as the time periods in which the necessary export documentation must be obtained.

The general rule is that the goods must be exported within a time period of 90 days from the earlier of the time an invoice is issued by the vendor or any payment of consideration is received from the purchaser. This in line with the general time of supply rules in the VAT Act, which is any payment and not the payment of the full consideration for the supply [or the issue of an invoice]. Therefore, the 90-day period starts from the date when a payment is received for any portion of the full consideration.

This can create practical difficulties where there is a significant period of time between receiving an advance payment and the exportation of the goods relating to such payment, as the 90-day period could elapse before the goods are ready for export.

There are, however, exceptions to the general rule, including scenarios in which advance payments were received or goods are subject to a process of manufacturing or assembly. A vendor must consider each case on its own merits to determine if the exceptions are applicable. The purpose of the exceptions to the general rule is to increase the circumstances in which goods can be exported without the need to apply for a ruling from SARS.

Furthermore, in terms of obtaining documentary proof, the general rule is that all the required documentation must be obtained within 90 days of the date the goods are required to be exported. Again, there are exceptions to this general rule, each of which should be considered on their merits.

What this means for the construction industry

Vendors in the construction industry must determine beforehand if the exportation of goods is either a direct export or indirect export and whether it must follow the rules subject to IN30 or the Export Regulation.

The vendor must ensure it obtains and retains the correct documentation in terms of the rules applicable to its method of export and that it complies with the time period outlined in the Export Regulation and IN30. It is important to note that non-compliance is likely to result in the export being converted into standard-rated supplies with possible penalties and interest.

Board room dynamics

The ever increasing focus on governance and the performance by board's of directors is in the public eye. Finding the correct balance between management not being puppets of the board and the board not merely rubber stamping management decisions remains a challenge.

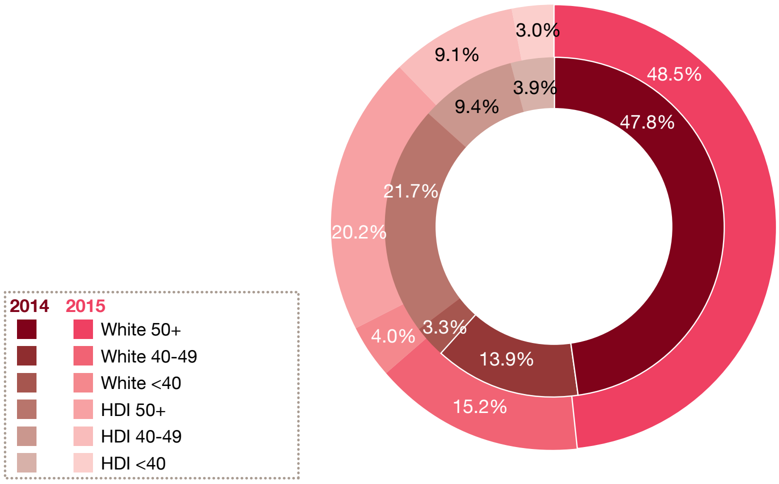
Board composition

An analysis of the group of companies in the heavy construction industry, suggests that 32% of board members (down from 35% in 2014) are historically disadvantaged individuals (HDIs).

The Construction Charter requires a minimum of 40% representation of HDIs at board level. The industry participants have a seven-year period in which to achieve compliance with an effective date of June 2009. The analysis suggests that the industry has lost some momentum when compared to the prior year's statistics and requires a focused and dedicated effort in the next year in order to achieve the objectives set out in the Construction Charter.

In drawing a comparison of the board's composition by age and race, it is noted that a slightly higher percentage of board members younger than 40 years are HDIs. This is encouraging for the long-term transformation of boards.

Figure 14: Board composition by race



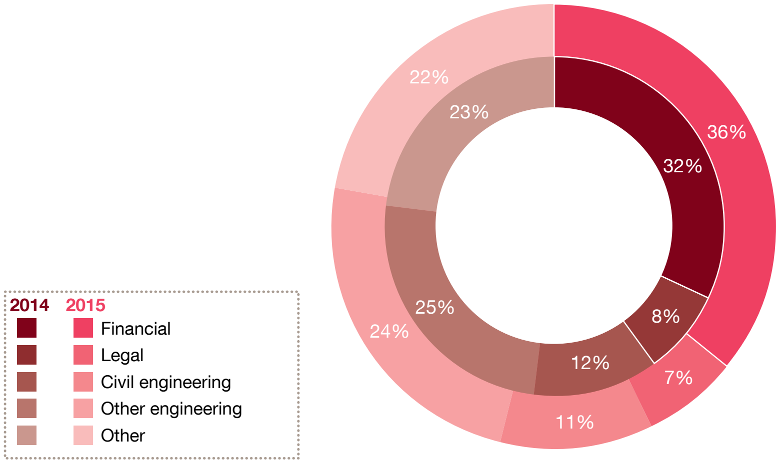
***Source**: PwC analysis*

In the construction and construction materials industries, female representation at board level is currently 23%%, of which 74% are HDI i.e. 17.2% HDI women. This is below the minimum requirement of 20% HDI representation of women set out in the Construction Charter. However, it is a significant improvement on the 13.9% achieved in the previous year.

The changing construction and governance environments require a changed skill set. The average board size for the companies analysed was nine, which allows for an adequate spread of skills. The smallest board had eight members and the largest board had 15 members.

Notwithstanding that professional qualifications are not the only factor in determining expertise and experience, the following analysis of board members by their primary professional qualifications indicates a diverse spread that provides boards with a wide array of expertise.

Figure 15: Construction industry: Skills represented on board



***Source**: PwC analysis*

Financial performance

Income statement

	Current year R 'millions	Prior year R 'millions	Difference R 'millions	% change
Construction revenue	129 368	139 403	(10 035)	(7%)
Other revenue	15 224	14 748	476	3%
Total Revenue	**144 592**	**154 151**	**(9 559)**	**(6%)**
Operating expenses	(142 760)	(150 474)	7 714	(5%)
PBIT	1 832	3 677	(1 845)	(50%)
Net interest	(144)	(211)	67	(32%)
Tax expense	(782)	(1 374)	592	(43%)
Equity accounted for earnings	167	198	(31)	(16%)
Discontinued operations	47	140	(93)	(66%)
Net profit	**1 120**	**2 431**	**(1 311)**	**(54%)**
PBIT margin	1.3%	2.4%	(1.1%)	(47%)
Net profit margin	1.0%	2.0%	(1%)	(50%)
Effective tax rate	46%	40%	6%	17%

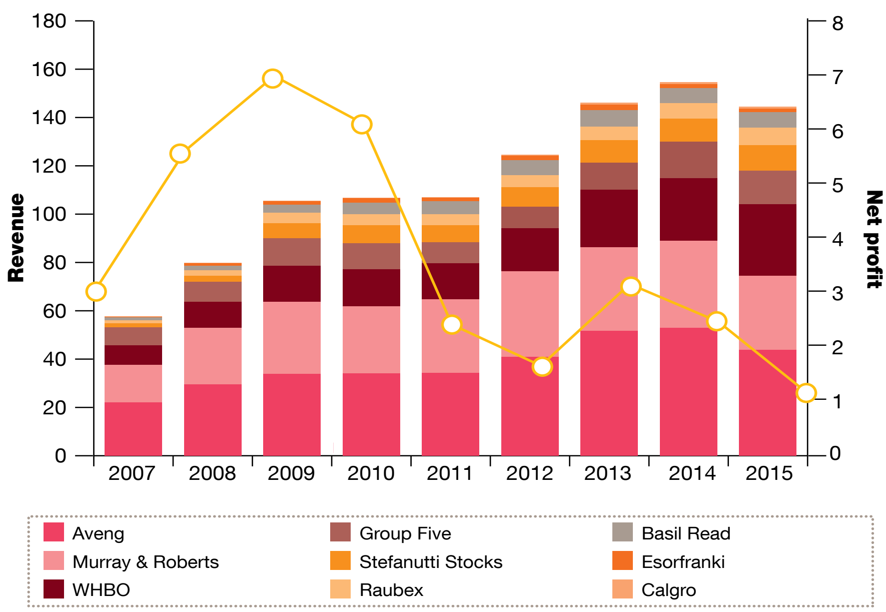
***Source**: PwC analysis*

Construction revenue

Construction revenue decreased by 7% (prior year increased by 7%) on the prior year mainly as a result of a decrease of R8.6 billion from Aveng, a R5.4 billion decrease from Murray & Roberts and R1.6 billion from Group Five partially offset by a R3.6 billion increase from WBHO and R1.4 billion increase at Stefannutti Stocks. These decreases were largely as a result of the weaker economy in particular for commodity markets with notable decrease in revenue from energy, oil and gas projects. General civil works, which is infrastructure driven had a challenging year. Building projects on the other hand showed remarkable strength as the cranes in Sandton's skyline would suggest.

Although construction companies did well to reduce operating costs in the lower revenue environment, margins continued to fall. Construction profits seem to be following the same double dip experienced by most industries after the 2008 economic crises.

Figure 16: Construction revenue vs net profit (R' billions)



***Source**: PwC analysis*

Other revenue

Other revenue mainly consisting of the sale of construction and related materials increased by 3%, mainly as a result of R450 million from Raubex, R249 million from WBHO and R111 from Basil Read. The increases were partially offset by decreases of R378 million from Aveng and R100 million from Murray & Roberts.

The other revenue trend is in line with the listed construction materials revenue trend where revenue growth was also marginal and profits were flat on prior year.

Operating expenses

Total costs decreased by 5% in response to lower revenue. Construction material volumes would decrease in line with the decrease in projects. This is not always the case for staff costs which is less flexible at the skilled level and only reduced by 3% on the prior year. Staff costs as a component of operating expenses have continued to represent a significant component of operating costs constituting 29% of total operating costs (2014: 28%).

Retention of key skills to serve prospective contracts is one of the construction companies' biggest investments in anticipation of the potential upswing. Companies therefore have to decide whether they can continue carrying excess staff or whether they need to downsize. This year saw a number of retrenchments as construction companies could no longer maintain their staff investment.

Net finance costs

The low level of finance costs reflects the traditionally low levels of gearing maintained by most South African construction companies. These companies are generally working capital funded with their biggest obligation to deliver on contract payments received in advance.

Taxation

The effective tax rate of 46% is larger than the prior year effective tax rate of 40% and the statutory rate of 28%. This increase is as a result of the inability to recognise deferred tax assets for losses made in some instances and differential in tax rates in foreign jurisdictions. The higher effective tax rate is also impacted by the non-deductibility of impairment expenses recognised.

Net profit

The construction industry is and has always been a very low margin industry. Net profit reduced by 54% and the PBIT margin halved from the prior year.

Although five of the companies on the list increased their net profit, these increase were more than offset by the R921 million decrease from Basil Read, R506 million from Murray and Roberts, R359 million from Group 5 and R142 million from Aveng.

WBHO improved their net profit by R359 million while Stefannutti Stocks and Raubex improved their net profit by R84 million and R48 million respectively.

Top-5 companies by profit before interest and tax margin

	Current year	Prior year
Calgro	9%	9%
Raubex	9%	9%
Murray and Roberts	4%	4%
Stefannutti Stocks	3%	2%
WBHO	2%	4%

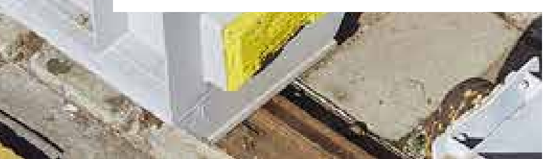
Source: *PwC Analysis*

** Top performers by profit before interest and tax*
Source: PwC analysis

Cash flows

Cash flows	Current year R 'millions	Prior year R 'millions	Difference R 'millions	% change
Cash flows related to operating activities				
Cash generated from operations	4 440	4 338	102	2%
Other	(286)	(235)	(51)	22%
Income taxes paid	(1 798)	(2 016)	218	(11%)
Net operating cash flows	**2 356**	**2 088**	**268**	**13%**
Cash flows related to investing activities				
Purchases of PPE	(2 475)	(3 459)	984	(28%)
Purchase of investments	(1 077)	(811)	(266)	33%
Sale of investments	1 886	3 053	(1 167)	(38%)
Other	790	636	154	24%
Net investing cash flows	**(877)**	**(580)**	**(297)**	**51%**
Cash flows related to financing activities				
Proceeds from ordinary shares issue	6	30	(24)	(81%)
Proceeds from interest bearing liabilities	3 524	3 590	(66)	2%
Repayment of interest bearing liabilities	(4 877)	(1 909)	(2 968)	155%
Distribution to shareholders	(750)	(867)	117	(14%)
Other	(270)	(4 522)	4 252	94%
Net financing activities	**(2 367)**	**(3 679)**	**1 312**	**(36%)**
Net cashflow for the year	**(888)**	**(2 171)**	**1 283**	**59%**

Source: *PwC analysis*



Cash flows from operating activities

Net increase of R0.3 billion (13%)

Cash generated from operations is higher than the EBITDA of R1.4 billion and it increased by 2% on last year from R4.3 billion to R4.4 billion. Profits need to be converted into cash in order to be of value to stakeholders. This is particularly true for the construction industry where estimates of final outcomes play an integral role in recognition of accounting profits. The industry has done exceptionally well in this regard with cash from operating activities well in excess of net profits.

The most notable improvements in cash generated from operating activities were WBHO R1.8 billion and CalgroM3 0.4 billion and these were offset by decreases in cash generated by operations from Aveng R1 billion, Murray and Roberts R0.7 billion and Basil Read R0.4 billion.

Tax paid decreased by 11% on last year from R2 billion to R1.8 billion and is notably higher than the R782 million tax expense reflected in the income statement, as construction companies are generally in a tax prepaid position with a high deferred tax asset position in a normal environment. It will be interesting to see whether this position will start unwinding in next year given the lower profitability.

Cash flows from investing activities

Net outflow increase of R0.3 billion (51%)

Additions to plant and equipment reduced by R1 billion to R2.5 billion as expected with a decrease in revenue and order book. This decrease follows a R1.2 billion decrease in the prior year demonstrating the severity of the negative outlook by construction companies and excess capacity.

After a number of disposals of non-core assets in the previous year, the only significant disposal in the current year relate to the R1.3 billion proceeds on disposal of a subsidiary, Electrix (Pty) Limited, by Aveng. There was no significant individual purchase of new investments for the current year.

Cash flows from financing activities

Net outflow of R2.6 billion, a R1.3 billion decrease from the prior year

Net repayment of borrowings of R1.4 billion after net proceeds of R1.6 billion in the prior year. The most notable contributors to the net repayment were Murray & Roberts' repayment of R1.2 billion and Aveng repaying R1.8 billion funded through the raising of R1.9 billion in convertible bonds.

Distribution to shareholders decreased to R0.8 billion with payments relating almost exclusively to the 2014 financial results. Only R0.5 billion in dividends were declared in the 2015 financial year.

The significant other outflow in financing activities in the previous year related to Murray &Roberts' R4.4 billion acquisition of all shares held by the non-controlling interest at Clough.

Financial position

	Current year R'millions	Prior year R'millions	Difference	%Change
Non-Current Assets				
Property, plant and equipment	16 077	17 118	(1 041)	(6%)
Investments at fair value	2 295	1 751	544	31%
Investments in associates and joint ventures	1 293	1 136	157	14%
Deferred tax asset	3 066	2 442	624	26%
Non-current receivables	3 740	5 815	(2 075)	(36%)
Goodwill	2 859	3 209	(350)	(11%)
Other non-current assets	1 878	1 922	(44)	(2%)
	31 208	**33 393**	**(2 185)**	**(7%)**
Current assets				
Inventories	4 860	5 267	(407)	(8%)
Contracts in progress	19 282	16 765	2517	15%
Trade and other receivables	17 537	18 283	(746)	(4%)
Cash and cash equivalents	15 996	17 362	(1366)	(8%)
Other current assets	642	536	106	20%
	58 317	58 213	104	0%
Non-current assets held for sale	1 062	1 541	(479)	(31%)
Total Assets	**90 587**	**93 147**	**(2 560)**	**(3%)**
Equity and liabilities				
Equity				
Share Capital	8 680	8 749	(69)	(1%)
Other Equity	26 533	26 253	280	1%
Non-controlling interest	384	403	(19)	(5%)
Total Equity	**35 597**	**35 405**	**(192)**	**1%**
Liabilities				
Non-Current Liabilities				
Interest-bearing borrowings	5 006	4 662	344	7%
Deferred tax liabilities	911	918	(7)	(1%)
Other non-current liabilities	1 950	2 247	(297)	(13%)
	7 867	**7 827**	**40**	**1%**
Current Liabilities				
Excess billings over work	7 121	7 848	(727)	(9%)
Trade and Other Payables	32 074	32 196	(122)	0%
Interest bearing borrowings	3 051	4 721	(1 670)	(35%)
Other Current Liabilities	4 385	4 472	(87)	(2%)
	46 631	**49 237**	**(2 606)**	**(5%)**
Liabilities held for sale	492	678	(186)	(27%)
Total Liabilities	54 990	57 742	(2 752)	(5%)
Total Equity and liabilities	**90 587**	**93 147**	**(2 560)**	**(3%)**
Key ratio's				
Solvency ratio	1.6	1.6		
Liquidity ratio	1.3	1.2		
Acid ratio	1.1	1.1		
Gearing ratio	9%	10%		

Sound financial position

Solvency and liquidity ratios remained strong and have remained in line with the prior year at 1.6 and 1.3 respectively. The gearing ratio decreased from 10% in the prior year to 9% in the current year and points to the fact that the South African construction is not only working-capital intensive but often also working capital funded.

These ratios are all derived from historical cost-carrying amounts and therefore do not necessarily reflect the true fair-value trends. A better indication of investors' perception of these carrying amounts and potential future growth is the market value of these entities. The market capital as a multiple of the net asset value, less non-controlling interest, reduced from 1.2 in the prior year to 0.7 in the current year. This indicates a decrease in confidence in the sustainability of the industry.

At an individual company level as at 30 June 2015, there were 5 (2014: 4) companies with net asset value exceeding the market capitalisation of the company.

Market capitalisation on 30 June 2015 as a percentage of net asset value excluding NCI

	Current year	Prior year
Esorfranki	17%	20%
Aveng	18%	72%
Basil Read	48%	46%
Stefannutti Stocks	51%	83%
Murray & Roberts	88%	183%

***Source**: PwC Analysis*

The preceding table shows a disconnect between the market perception of value for these companies and management's perception of the fair value of the underlying assets. The reason for this difference may be attributable to incomplete information available to the market, differing perceptions over contract successes and close outs and different views on the profitability of order books. These companies face a tough task convincing the market of their value.

This position is in contrast to the construction materials companies where the industry multiple of 2.4 is well above the 0.7. The more tangible nature of the construction materials balance sheet perhaps makes it easier for investors to evaluate. It could also be a bet by investors on the construction industry without the risk of project execution.

Non-current assets

Property plant and equipment (PPE) reduced by R1 billion (6%). The net reduction caused by the depreciation and impairment expense of R336 million (2014: R35.5 million) was offset by the capital expenditure.

In contrast construction material comprises increased total assets by 2% to increase capacity. This might be a good leading indicator for the future.

Non-current receivables, relating to contractual debtors where payments are expected after 12 months, have increased by R2.2 billion (60%), primarily as a result of R2 billion increase in Aveng.

Other non-current assets, made up significantly of goodwill and other investments, were flat on the prior year. The net increase caused by acquisitions was partially offset by the impairment of R820 million (2014: 1.045 billion) recognised. The impairment was mainly made up of impairment from Aveng R384 million from R831 million, Basil Read R304 million from zero and WBHO R116 million from R0.4 million.

Working capital

Contract working capital position

Financial position	Current year R'millions	Prior year R'millions	Difference	%Change
Contracts in progress	19 876	17 430	2 446	14%
Trade and other receivables	16 781	17 439	(658)	(4%)
Excess billings over work	(5 000)	(5 522)	522	(9%)
Trade and other Payables	(33 447)	(31 084)	(2 363)	8%
Working capital position	**(1 790)**	**(1 737)**	**(53)**	**3%**
Cash and cash equivalents	15 995	17 362	(1 367)	(8%)

The working capital position reflects a fairly balanced position, with only Basil Read having a liquidity ratio less than 1.

Cash position

The cash position remains strong and allows these companies to take on large-scale projects. The difference between this cash balance and that of the cash flow statement is over drafts included in short-term borrowings on the balance sheet.

Financing for sustainability

All but 3 of the companies evaluated were in a net cash position. The net cash position is required to comply with the requirements of large construction projects. Guarantees are usually backed by the cash balances and no changes are expected to occur in the near future.

The construction industry is well placed to cope with new growth requirements.

Streamlined Financial Statements: paving the way to clearer financial reporting

It is generally accepted that financial reports are too complex and difficult to read, which results in companies struggling to tell the story of their performance to the market, and relevant information getting lost in the noise. This is largely due to:

- A checklist approach taken by many current accounting standards, which lists detailed disclosures rather than relying on broad disclosure objectives;
- A risk-averse mind-set leading to preparers and regulators taking a 'belt and braces' approach to disclosure, thereby focusing on the completeness of disclosures rather than on materiality and relevance; and
- Boilerplate disclosures with large portion of standing data that obscure relevant information.

The result is that financial reports are now more about compliance than about relevant communication.

What do regulators think about reporting?

In December 2014, the International Accounting Standards Board ("IASB") issued an amendment to IAS 1 Presentation of Financial Statements as part of its initiative to improve the presentation and disclosure in financial reports. The IASB hopes to encourage companies to apply professional judgement in determining what information to disclose in their financial statements.

The JSE, in their report back on the proactive monitoring of financial statements issued in February 2015, was concerned that 'a poor approach to disclosure may obscure the understanding of important matters and to an extent diminish fair presentation of the financial statements'.

Moving from compliance to communication

In a competitive market for capital, communication matters. Research shows that companies that communicate their strategy and performance credibly and effectively find it easier to access capital. Financial reports therefore should assist management in communicating effectively to the market.

If we look at the notes to the financial statements, most companies retain a more traditional approach to presenting the notes to their financial statements. However, there is an increasing level of innovation by some which raises an important question: do investment professionals find alternative formats more useful? And if so, how might companies adapt their financial statements and notes so that they become the best communication tools they can be? We asked 85 investment professionals around the world for their views on what they find useful, and where companies might improve. What came back was interesting:80% of investors say that the quality of reporting impacts investor's perception of the quality of management.

How could you improve your reporting?

As an overall theme to the feedback, users of financial statements want to be able to find information easily and see clear links between related content.

More specifically, some key action points for companies emerged from our research:

- Understand your stakeholders (e.g. regulators, unions, investors and senior management) and what they want to see in the financial statements.
- Create a clear link between your financial performance and your business model, strategy and risk disclosures.
- Combine accounting policies with the applicable note to provide a clearer picture of your company's performance.
- Be clear about what has changed in your accounting policies, important judgements made and choices you have taken.
- Set your accounting policies in the context of your business, and explain how the policy links to the specific details of your business model.
- Create a structure to the order of the notes that speaks to your company's key performance indicators, risks and performance
- Companies should think about how they can better portray their business strategy and performance.

Glossary

Acid ratio	(Current assets less inventory)/Current liabilities
ACSA	Airports Company of South Africa Limited
Adjusted EBITDA	EBITDA adjusted for impairment charges
ASPASA	Aggregate and Sand Producers Association of South Africa
B-BBEE	Broad-Based Black Economic Empowerment
DAWN	Distribution and Warehousing Network
EU-OSHA	European Agency for Safety and Health at Work
GEPF	Government Employees Pension Fund
HDI	Historically disadvantaged individual
HDSA	Historically disadvantaged South African
IEA	International Energy Agency
IPP	Independent power producer
JSE	Johannesburg Stock Exchange
KPI	Key performance indicator
Market capitalisation	The market value of the company calculated as the number of shares outstanding multiplied by the share price
MTEF	Medium-Term Expenditure Framework
NCI	Non-controlling interest
Net borrowings	Interest-bearing debt, less cash
PBIT	Profit before income and tax
PIC	Public Investment Corporation
PPE	Property, plant and equipment
REIPPPP	Renewable Energy Independent Power Procurement Programme
SANRAL	South African National Roads Agency Limited
SARS	South African Revenue Service

Other information

Companies included in the analysis

	Heavy construction	Company year end
1	Aveng Limited (Aveng)	30 June 2015
2	Basil Read Limited (Basil Read)	31 December 2014
3	Calgro M3 Holdings Limited (Calgro)	28 February 2015
4	Esorfranki Limited (Esorfranki)	28 February 2015
5	Group Five Limited (Group Five)	30 June 2015
6	Murray and Roberts Holdings Limited (Murray & Roberts)	30 June 2015
7	Raubex Group Limited (Raubex)	28 February 2015
8	Stefanutti Stocks Holdings Limited (Stefanutti)	28 February 2015
9	Wilson Bayly Holmes-Ovcon Limited (WBHO)	30 June 2015

Basis for compiling this report

The data set out in this publication was drawn from information publicly available for the period ended 30 June 2015. The information was taken from the annual reports of the Construction companies listed on the JSE.

The results aggregated in this report have been sourced from information that is publicly available, primarily annual reports or reviewed results made available to shareholders. Companies have different year ends. The information included is based upon aggregated results of those construction and materials companies reported on.

For companies with year ends other than 30 June, their latest available annual reports with year ends in the 12 months prior to June 2015 were used. Therefore results for December 2014 and February 2015 were also included. No adjustments have been made to take the different year ends into account.

All currency figures in this publication are reported in South African rands, except where specifically stated otherwise. Some diversified companies undertake part of their activities outside the construction industry. No attempt has been made to exclude such non-construction activities from the aggregated financial information.

Contributors

- Deveshnee Naidoo
- Alwina Brand
- Ashleigh Harrison
- Bianca Raghuber
- Desire Botes
- Dominique Deysel
- Juan Coetzee
- Juan Swanepoel
- Nthato Makhetha
- Sayuri Ramawtar
- Tlhalefo Mphuthi
- Thokozani Nkosi

Contacts

Assurance

Eben Gerryts
Consumer and Industrial Products Leader
+27 (0) 12 429 0409
eben.gerryts@za.pwc.com

Andries Rossouw
Project Leader
+27 (0) 11 797 4060
andries.rossouw@za.pwc.com

Advisory

Jonathan Cawood
Capital Projects & Infrastructure Leader
+27 (0)11 797 5236
jonathan.w.cawood@za.pwc.com

Georg Hofmeyer
Capital Projects & Infrastructure Partner
+27 (11) 797 4707
georg.hofmeyr@za.pwc.com

Tax

Louis Carney
Associate Director
+27 (11) 797 4715
louis.carney@za.pwc.com

Alwina Brand
Partner
+27 11 797 5250
alwina.brand@za.pwc.com

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