

EQOSTRA

HOLDINGS LIMITED



Contract Mining and Plant Rental

Investor day presentation
29 November 2011

Divisional overview

- Largest division of Eqstra – 42% of revenues and 50% of revenue producing (leasing) assets
- Primary business units - MCC Contracts and MCC Plant Hire
- One of two large domestic open cast mining contractors in southern Africa
- Largest plant hire fleet in southern Africa
- Targeted job range R400 million – R1 billion in capex
- 4729 employees (+6.6%)



The open cast contract mining model – in simple terms

- Significant capital needs to be allocated to both ore extraction and the metal processing plant
- Major contract miners have the expertise and balance sheet strength to assist with waste and ore extraction
- A competitive bidding process is undertaken
- Defined risk sharing mechanisms between mine owner and contractor
- Contractor aims to generate a sufficient return on invested capital



Plant hire business model

- ✓ 10-15% of divisional revenues
- ✓ Sell hours based on value of equipment and market demand
- ✓ Target market is:
 - ✓ Infrastructure development
 - ✓ Government and parastatals
 - ✓ Construction and Mining
- ✓ Equipment availability is key
- ✓ New branches in Windhoek, Namibia and in Tete, Mozambique – activity picking up
- ✓ Construction market remains depressed
- ✓ Hire fleet is used to supplement contract mining at times and vice versa

Fleet size

- /// Total fleet of approximately 2 100 units
- /// Includes approximately 1 150 revenue earning units
- /// Major items include:
 - /// 2 Liebherr 600t excavators
 - /// 21 Liebherr 250t / 340t excavators
 - /// 22 Liebherr 125t excavators
 - /// 18 200t /250t rigid dump trucks
 - /// 80 150t rigid dump trucks
 - /// 130 100t rigid dump trucks
 - /// 37 D10 / D11 dozers
 - /// 9 992 / 993 front-end loaders
 - /// 234 Articulated dump trucks
 - /// 10 160M graders
 - /// 118 140H graders
 - /// 26 Drill rigs

Summary financials

Rm	Full year			6 monthly			
	2011	2010	% ch	H1'10	H2'10	H1'11	H2'11
Leasing assets	3 839	3 061	+25.4%	3 173	3 061	3 033	3 839
Inventories	60	62	-3.2%	47	62	71	60
Other assets	780	675	+15.6%	597	675	653	780
Operating assets	4 679	3 798	23.2%	3 817	3 798	3 757	4 679
Revenue	3 189	3 123	+2.1%	1 588	1 535	1 628	1 561
EBITDA	956	988	-3.2%	526	462	478	478
Operating profit	323	357	-9.5%	194	163	170	153
Net finance costs	217	250	-13.2%	130	120	101	116
Net impairment of assets	(50)						(50)
PBT (LBT)	56	107	-47.7%	64	43	69	(13)
Operating margin	10.1%	11.4%		12.2%	10.6%	10.4%	9.8%
EBITDA to net finance costs	4.4x	4.0x		4.0x	3.9x	4.7x	4.1x

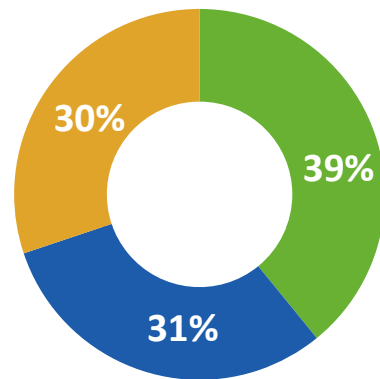
Mining contracts

Client	Mineral/Service	Location	Monthly volumes	End date
Platmin - Pilanesberg Platinum Mine	Platinum	Northam, North West	1 300 000m ³	03/2014
Xstrata Base Metals - Eland Platinum Mine	Platinum	Brits, North West	350 000m ³	10/2011
Aquarius Platinum - Marikana Mine	Platinum Materials Handling	Rustenburg, North West	120 000m ³	12/2013
ARM/Norilsk Joint Venture - Nkomati Mine	Nickel	Machadodorp, Mpumalanga	1 100 000m ³	09/2014
ARM/Norilsk Joint Venture - Nkomati Mine	Drilling	Machadodorp, Mpumalanga	100 000m	12/2015
Tharisa Minerals	Chrome	Marikana, North West	600 000m ³	06/2017
Riversdale Mining - Benga Mine	Coal	Tete, Mozambique	1 900 000m ³	03/2015
DMO Project	Coal	Witbank, Mpumalanga	1 300 000m ³	05/2012
Khutala Colliery	Coal	Ogies, Mpumalanga	1 100 000m ³	04/2013
Total Coal – Dorstfontein East	Coal	Kriel, Mpumalanga	1 050 000m ³	01/2016
Coal of Africa - Vele Colliery*	Coal	Musina, Limpopo	500 000m ³	

* 4th quarter 2011 expected start date

Commodity diversification

2011 Revenue (R3 189m)



■ Platinum

■ Energy (coal and uranium)

■ Other and Plant Rental

- ✓ Commodity diversification objective achieved
- ✓ Revenues from coal expected to increase further in FY2012
- ✓ Only material platinum project is now Pilanesberg Platinum Mine
- ✓ Prospects in platinum, coal, manganese, copper, uranium and gold

Contract mining operating strategy

- ✓ Maintain sustainability of earnings through:
 - ✓ Correct project pricing upfront
 - ✓ Management of contract revisions
- ✓ Early risk identification and assessment
- ✓ Maintain targeted production levels at all times
- ✓ Focus on machine care and maintenance
- ✓ Create a settled workforce (including low staff turnover)
- ✓ Strong client relationships to create sustainable partnerships
- ✓ Make safety a way of living, not a restriction



Production strategy

- Ideal contract size is > 1,000,000 m³ (cubes) per month
- Targeted monthly production based on client call rates – a minimum is stipulated in the contract
- Production incentive scheme introduced :
 - Scheme aligns production output targets with annual employee incentive scheme – this was not the case previously
 - Material difference observed in employee behavior since scheme introduced



Preventative maintenance

- ✓ Mid-life (3-4 years) maintenance costs can negatively impact on operating results if capex has been lumpy
- ✓ MCC practices a preventative maintenance strategy:
 - ✓ Component replacement before failure
 - ✓ Focus on high level in-service maintenance to prevent machine failure
 - ✓ Enough trained staff on site to maintain a high level of focus



Fleet replacement policy

- ✓ Optimised fleet replacement based on life cycle costing / break-even that achieves maximum productivity
- ✓ Replacement policy:
 - ✓ Large excavators 40 000 – 60 000 hours
 - ✓ Medium excavators 12 000 hours

 - ✓ Rigid trucks 30 000 – 40 000 hours
- ✓ Depreciation
 - ✓ Moved to hourly-based in FY2012
 - ✓ Useful life remains consistent
 - ✓ Bi-annual residual testing
 - ✓ Disposal profits being generated

- Equipment availability is measured according to how many hours a specific item of equipment actually was mechanically available to work per shift i.e. the % of time mechanically able to work per shift
- Poor levels of availability often lead to poor utilisation as equipment work in teams

- Addressing poor availability:
 - Increased maintenance spend – this has had an impact on recently reported operating margins
 - Internal organisational structure – clarification of reporting lines – technical managers assigned for specific products
 - Monthly engineering meetings – focus on availability, costs etc.
 - Increased artisan headcount
 - Increased Midrand workshop capacity
 - Introduce Service Level Agreements with major suppliers

- ✓ Utilisation is measured according to how many hours a specific item of equipment actually “worked” as a % of the available hours it could have worked i.e. was mechanically able to work
- ✓ There is room for improvement in the current utilisation rate

- ✓ Factors impacting utilisation:
 - ✓ Strike action
 - ✓ Inclement weather
 - ✓ Equipment replacement cycle lag
 - ✓ Project transitions
 - ✓ Bad scheduling practices
 - ✓ Bad mining practices e.g. excessive tramming
 - ✓ Operator availability

Addressing under utilisation

- ✓ Daily continuous focus on monitoring cubic meters moved per hour of all “major movers”
- ✓ Comparisons to benchmarks
- ✓ Improve training through innovative technology
- ✓ Utilisation targets to include moving average analysis to ensure a focus on continuous improvement
- ✓ Production incentives
- ✓ Reduce expansion capital expenditure
- ✓ Tender for additional projects with existing equipment

Equipment purchasing policy

- ✓ Equipment standardisation based on life cycle costing
- ✓ Spares availability and back-up is key
- ✓ Some suppliers offer an attractive buy-back incentive
- ✓ Equipment lead times increasing, but has come back in recent months for certain lines
- ✓ Long-term relationships with suppliers are critical



Investment in technology

- ✓ Legacy island / stand-alone systems have become cumbersome
- ✓ New best in class ERP system being commissioned
- ✓ Board approval to implement SAP ERP system in 2012
- ✓ Aim is to deliver business value rather than just technology



Training and development

- ✓ Shortage of suitably skilled workers remains prevalent
- ✓ Technical training:
 - ✓ MCC operates its own formal training academy in Benoni, Gauteng
 - ✓ The academy is fully accredited by industry training bodies
- ✓ Operator training:
 - ✓ Advanced simulator technologies introduced
 - ✓ On-site training facilities includes:
 - ✓ Simulators with instructors
 - ✓ Classrooms and teachers to accommodate learners during shifts
- ✓ Centre for Production Training for supervisors and foremen



Industrial relations

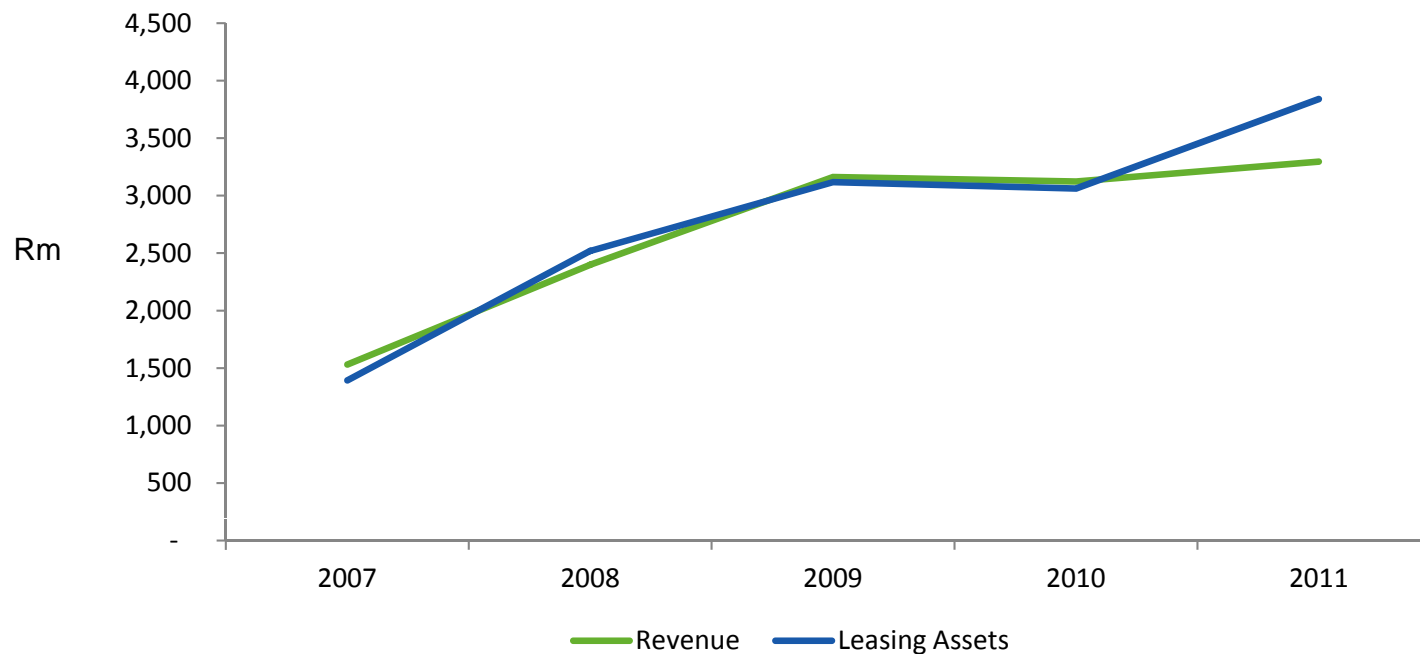
- ✓ Industrial relations is a key operational and strategic risk
 - ✓ Both legal and illegal strike action experienced
- ✓ Growth in company in recent years has elevated this challenge
- ✓ NUM has gained increased membership in the group
- ✓ Executive capacity strengthened by recent appointment of Mr Thabo Mosoane as MCC's HR Executive
- ✓ Active executive involvement in IR negotiations

Income statement key points

- ✓ Revenue – Tonnage moved x contracted rate
 - ✓ Very sensitive to disruptions -- catch-up not possible
- ✓ Costs – labour costs have increased due to SAFCEC determinations
- ✓ Business model requires at least a 14% operating margin to achieve 20% targeted ROE
- ✓ Operating margin negatively impacted by:
 - ✓ low plant utilisation
 - ✓ high planned preventative maintenance expenses
 - ✓ new contract start-up costs
- ✓ Depreciation policy – moved to hourly depreciation in FY2012 - better matching of costs with revenues. Heavy equipment value determined by hours worked not age
- ✓ Targeted depreciation as a percentage of revenue = 18-20%
- ✓ Benga 5-year tax concession will lower divisional taxation rate

Asset turnover ratio

- 1:1 asset turnover ratio (Revenue / Leasing assets) targeted – 0.83 for FY2011
- Normally impacted by low utilisation - adverse weather, strike action, movement of plant at end of contracts, commissioning of new plant, low mechanical availability
- Benga assets purchased towards the end of FY2011 has distorted the historical relationship



Balance sheet key points

- ✓ Optimal gearing target 250% - 300%
- ✓ Individual project hurdle rate – 25% ROE
- ✓ Working capital to revenue targeted at neutral during the year - 4.4% at FY2011
- ✓ Inventories minimal – mining equipment spares, tyres and diesel
- ✓ Accounts receivable – payment terms are 30 days net



Capital expenditure outlook

- ✓ Expansion capex increased significantly in FY2011 to R931m (FY2010: R385m)
 - ✓ Benga project R645m
- ✓ Replacement capex similarly increased to R775m (FY2010: R301m)
 - ✓ Optimised average fleet age

- ✓ Current estimate of expansion capex for FY2012 is R374m
 - ✓ Balance of Benga project
 - ✓ Excludes new significant contract wins
- ✓ Targeted replacement capex for FY2012 – R797m
- ✓ Total FY2012 capex projected at R1,171m

FY2012 Revenue outlook

1H 2012

- Benefit of full impact of Benga equipment deliveries
- Eland Platinum ended October 2011
- PPM output to fully recover by 3Q FY2012
- Dorstfontein East ramp-up (into 2H)

2H 2012

- Vele ramp-up

QUESTIONS?