GROUP FIVE
structured ingenuity

AUDITED GROUP RESULTS

for the year ended 30 June 2011

CONDENSED CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2011

(R'000)	Audited 2011	2010
Revenue	9 206 998	11 337 588
Operating profit before fair value adjustments and impairment adjustments	498 828	876 895
Fair value adjustment relating to investments in service concessions, property developments and investment properties – net	48 844	13 532
Impairment of property, plant and equipment	(550 540)	(325 569)
Operating (loss)/profit	(2 868)	564 858
Share of profit from associates	820	1 347
Finance income	96 060	143 303
Finance costs	(77 699)	(115 432)
Profit before taxation	16 313	594 076
Taxation	(158 143)	(258 297)
(Loss)/profit after taxation from continuing operations	(141 830)	335 779
Loss for the year from discontinued operations	(17 214)	(22 102)
(Loss)/profit for the year	(159 044)	313 677
Allocated as follows:		
Equity shareholders of Group Five Limited	(218 107)	267 377
Non-controlling interest	59 063	46 300
	(159 044)	313 677
(Loss)/earnings per share – R	(2,27)	2,80
Fully diluted (loss)/earnings per share – R	(2,27)	2,56

DETERMINATION OF HEADLINE EARNINGS

for the year ended 30 June 2011

(R'000)	Audited 2011	2010
Attributable (loss)/profit	**(218 107)**	267 377
Adjusted for (net of tax)	**536 989**	318 534
– Loss/(profit) on sale of property, plant and equipment and investment property	**832**	(267)
– Loss on disposal of subsidiary	**574**	3 567
– Impairment of property, plant and equipment	**521 621**	293 132
– Net profit on fair value adjustment on investment property	**(3 252)**	–
– Losses on disposal of discontinued operations	**17 214**	22 102
Headline earnings	**318 882**	585 911

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

(R'000)	Audited 2011	2010
(Loss)/profit for the year	**(159 044)**	313 677
Other comprehensive income for the year net of tax		
Exchange differences on translating foreign operations	**(45 948)**	(68 889)
Total comprehensive income for the year	**(204 992)**	244 788
Total comprehensive income for the year attributable to		
Equity shareholders of Group Five Limited	**(264 055)**	198 488
Non-controlling interest	**59 063**	46 300
Total comprehensive income for the year	**(204 992)**	244 788

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

(R'000)	Audited 2011	2010
ASSETS		
Non-current assets		
– Property, plant and equipment and investment property	1 430 457	2 106 573
– Goodwill	–	24 859
– Investments – service concessions	253 100	224 311
– Investments – property developments	8 691	128 691
– Other non-current assets	227 745	173 918
	1 919 993	2 658 352
Current assets		
– Other current assets	3 562 973	4 096 899
– Bank balances and cash	2 234 779	3 129 990
	5 797 752	7 226 889
Non-current assets classified as held for sale	53 233	65 153
Total assets	7 770 978	9 950 394
EQUITY AND LIABILITIES		
Capital and reserves		
– Equity attributable to equity holders of the parent	2 148 130	2 486 357
– Non-controlling interest	117 565	75 055
	2 265 695	2 561 412
Non-current liabilities		
– Interest bearing borrowings	232 203	843 244
– Other non-current liabilities	87 326	64 945
	319 529	908 189
Current liabilities		
– Other current liabilities	5 185 754	6 456 620
– Bank overdrafts	–	24 173
	5 185 754	6 480 793
Total liabilities	5 505 283	7 388 982
Total equity and liabilities	7 770 978	9 950 394

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 30 June 2011

(R'000)	Audited 2011	2010
Cash flow from operating activities		
Profit before working capital changes	756 256	1 132 993
Working capital changes	(1 237 775)	58 001
Cash (utilised)/generated from operations	(481 519)	1 190 994
Finance income – net	18 361	27 871
Taxation and dividends paid	(375 756)	(284 241)
Net cash (utilised)/generated by operating activities	(838 914)	934 624
Property, plant and equipment and investment property (net)	(48 800)	(124 739)
Investments (net)	117 517	(43 749)
Net cash generated by/(utilised in) investing activities	68 717	(168 488)
Net cash utilised in financing activities	(92 809)	(401 753)
Effects of exchange rates on cash and cash equivalents	(8 032)	(36 990)
Net cash generated by discontinued operations	–	–
Net (decrease)/increase in cash and cash equivalents	(871 038)	327 393

CAPITAL EXPENDITURE AND DEPRECIATION

as at 30 June 2011

(R'000)	Audited 2011	2010
Capital expenditure for the year	150 352	210 026
Capital expenditure committed or authorised for the next year	203 745	209 577
Depreciation for the year	211 557	245 235

CONDENSED CONSOLIDATED SEGMENTAL ANALYSIS

for the year ended 30 June 2011

(R'000)		% change	Audited 2011	2010
Revenue				
Investments and Concessions		(6)	554 659	591 871
– Infrastructure Concessions		(6)	522 870	557 227
– Property Developments		(8)	31 789	34 644
Manufacturing		–	867 523	866 221
Construction Materials		(12)	434 233	491 860
Construction		(22)	7 350 583	9 387 636
– Building and Housing		(33)	2 143 004	3 186 142
– Civil Engineering		(25)	3 548 361	4 713 487
– Engineering		12	1 659 218	1 488 007
Total revenue		(19)	9 206 998	11 337 588
(R'000)	2011 Core margin %	% change		
OPERATING PROFIT				
Investments and Concessions	11.3	(18)	62 624	75 928
– Infrastructure Concessions	14.0	(13)	73 176	83 974
– Property Developments	(33.2)	(31)	(10 552)	(8 046)
Manufacturing	3.0	(68)	26 342	82 300
Construction Materials	(15.7)	(487)	(68 157)	17 624
Construction	6.5	(26)	480 318	649 967
– Building and Housing	6.4	(38)	136 900	220 022
– Civil Engineering	6.5	(20)	231 904	290 001
– Engineering	6.7	(20)	111 514	139 944
Total core operating profit	5.4	(39)	501 127	825 819
Adjustment for non-operational transactions				
Pension fund valuation (deficit)/surplus			(2 000)	55 161
Loss on sale of subsidiary			(299)	(4 085)
Total operating profit before fair value and impairment adjustments			498 828	876 895

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

(R'000)	Audited 2011	2010
Balance at 1 July	**2 561 412**	2 407 843
Net (loss)/profit for the year	**(159 044)**	313 677
Other comprehensive loss for the year	**(45 948)**	(68 889)
Share options expense	**46 836**	43 002
Distribution to non-controlling interest	**(16 553)**	(5 611)
Dividends paid	**(121 008)**	(128 610)
Balance at 30 June	**2 265 695**	2 561 412

STATISTICS

as at 30 June 2011

	Audited 2011	2010
Number of ordinary shares	**96 004 779**	95 335 170
– Shares in issue	**121 477 858**	120 911 817
– Less: Shares held by share trusts	**(25 473 079)**	(25 576 647)
Weighted average shares ('000s)	**96 114**	95 378
Fully diluted weighted average shares ('000s)	**101 137**	104 376
(Loss)/earnings per share – R	**(2,27)**	2,80
Headline earnings per share – R	**3,32**	6,14
Fully diluted (loss)/earnings per share – R	**(2,27)**	2,56
Fully diluted headline earnings per share – R	**3,15**	5,61
Dividend cover (based on earnings per share)	**–**	2,0
Dividends per share (cents)	**72,0**	137,0
– Interim	**52,0**	63,0
– Final	**20,0**	74,0
Net asset value per share – R	**22,38**	26,08
Net debt to equity ratio	**–**	–
Current ratio	**1.1**	1.1

Estimates and contingencies

The group makes estimates and judgments concerning the future, particularly with regards to construction contract profit taking, provisions, arbitrations and claims and various fair value accounting policies. The resulting accounting estimates and judgments can, by definition, only approximate the actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Total financial institution guarantees given to third parties on behalf of subsidiary companies amounted to R4 537 million as at 30 June 2011 (2010: R5 062 million).

Dividend declaration

The directors have declared a final dividend number 66 of 20 cents per ordinary share (2010: 74 cents) payable to shareholders.

To comply with the requirements of Strate the relevant details are:

Event	Date
Last day to trade (cum-dividend)	Friday, 23 September 2011
Shares to commence trading (ex-dividend)	Monday, 26 September 2011
Record date (date shareholders recorded in books)	Friday, 30 September 2011
Payment date	Monday, 3 October 2011
No share certificates may be dematerialised or rematerialised between	Monday, 26 September 2011 and Friday, 30 September 2011, both dates inclusive.

Basis of preparation

These consolidated condensed financial statements for the year ended 30 June 2011 have been prepared in accordance with IAS 34, "Interim Financial Reporting" and in the manner required by the Companies Act of South Africa. The consolidated condensed financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2011 which have been prepared in accordance with International Financial Reporting Standards (IFRS).

The accounting policies are consistent with those used in the prior year.

These results have been audited by PricewaterhouseCoopers Inc., Registered Auditors.

Their unmodified audit report is available for inspection at the company's registered office.

Commentary

Financial overview

In the period under review, the construction and engineering activity in the markets in which the group operates remained depressed. These conditions were further exacerbated by the unpredictable delays in some public infrastructure expenditure in South Africa and domestic over-capacity in the industry which was built up in the years preceding the 2010 infrastructure super-cycle.

Against these difficult markets, the group took a strategic decision to, as far as possible, avoid securing a low margin construction order book with cash negative returns. The group instead searched for better quality work outside of South Africa, focusing on growing the concessions business and cutting rather than carrying costs.

Whilst the group's Construction and Concessions businesses performed well in light of these tough market conditions, further adverse cyclical and fundamental changes in the Construction Materials markets, particularly in the aggregates and ready-mix markets, occurred. This resulted in the group taking a much more conservative view of the prospects for this cluster. We therefore processed a second impairment against the carrying value of the non-current assets of the construction materials business in December 2010, as outlined below and as previously reported.

The Manufacturing segment was also adversely affected through this severe down-cycle with volume and pricing pressure degrading revenue and margins.

Financial performance

Headline earnings per share (HEPS) decreased by 45.9% and fully diluted HEPS (FDHEPS) by 43.9%. Due to an impairment charge on property, plant and equipment and goodwill within the Construction Materials business, earnings per share (EPS) and fully diluted EPS (FDEPS) was a loss of 227 cents per share.

Group revenue decreased by 18.8% from R11,3 billion to R9,2 billion due to a reduction in activity levels within the buildings, housing and civil infrastructure markets, client-driven contract delays and the group's decision not to chase volumes at the expense of margin. These conditions, combined with increasing price competition, resulted in operating profit before fair value adjustments and impairment adjustments decreasing by 43.1% from R877 million to R499 million.

Included within operating profit is a deficit on the group's pension fund of R2,0 million (2010: surplus of R55,2 million).

The group operating profit margin was 5.4% (2010: 7.7%). The decrease is attributable to the decline in the Construction Materials market and the weak performance by the Manufacturing business, somewhat offset by the sound results within tough market conditions from the heavy construction cluster and infrastructure concessions businesses.

Fair value net upward adjustments of R48,8 million (2010: R13,5 million) relating to the group's interests in Eastern European road transport concessions, as well as the group's investments in property developments and investment properties, positively affected the group's results in the period under review.

In line with expectations, group net finance income of R18,4 million was recorded for the year compared to net finance income of R27,9 million in the prior year. This was assisted by stabilised interest rates, but negatively affected by the reduction in cash and cash equivalents, which were mainly realised in the first half of the financial year.

The effective tax rate of 33% (2010: 34%) on profit before the construction materials impairment adjustment was higher than the South African statutory tax rate of 28%, mainly due to secondary tax on companies paid, liabilities in jurisdictions with higher taxation rates and a conservative approach adopted to the raising of deferred taxation assets.

Financial position

The group balance sheet continues to be sound, with a nil net gearing ratio as at 30 June 2011.

Practice requires that the carrying values of non-current assets owned by the group, including property, plant and equipment and goodwill, are reviewed for impairment on an annual basis or when there is such an indication. The weakened market conditions applicable to the Construction Materials cluster therefore resulted in detailed impairment tests being conducted. As there is currently uncertainty around the timing of the recovery of construction materials markets and a delay in contract roll out and awards in the public sector, management adopted a cautious approach when considering the carrying value of these assets and therefore processed an impairment of R325,6 million in the 2010 financial year and a further R550,5 million in the first half of 2011. The impairment tests performed at year end indicated that a further impairment was not required.

Furthermore, during the year, an amount of R17,2 million (2010: R22,1 million) was charged to the income statement, mainly as a result of the prudent treatment of the amount due from contract claims on a terminated Indian toll road contract carried as a discontinued operation.

Cash flow

The group generated R756,3 million cash from operations before working capital changes. However, in line with expectations, working capital absorption of R1,2 billion (2010: R58 million generated) resulted in a net cash outflow of R871 million in the period of which the majority (R706 million), occurred in the first half of the financial year. As expected, the finalisation of the large local infrastructure contracts saw the unwinding of advance payments and the settlement of creditor final accounts. Pleasingly, working capital outflows reflect the settlement of trade and other payables only, whereas working capital continues to improve in all other areas of trade and other receivables and the management of inventory levels.

Dividends

The group's adopted dividend policy is approximately four times basic earnings per share dividend cover. This policy is subject to review on a semi-annual basis, prior to dividend declaration, as distributions will be influenced by business growth, acquisition activity or movements in earnings as a result of fair value accounting adjustments. In recognition of the non-cash nature of the Construction Materials impairment adjustment, the board has approved a dividend based on a cover of four times earnings per share of R2,89 before recording of impairment adjustments, non-cash fair value adjustments and pension fund deficits. A final dividend of 20 cents per share (2010: 74 cents) has thus been declared. This brings the total dividend for the year to 72 cents per share (2010: 137 cents). The dividend policy therefore remains unchanged and is based on the medium term business outlook and the availability of liquid resources.

Business combinations

There were no business combinations during the current financial year.

Shareholding

Further to the group's previous statement regarding the unwinding of the iLima Consortium (iLima) shareholding, the courts have awarded in Group Five's favour and instructed the return of the group's shares by iLima. This process is currently being delayed due to the liquidation of iLima. As previously reported, the unwinding will have no material bearing on the group's results. The group has excluded the iLima shareholding from its current broad-based black economic (BBBEE) scorecard and confirms that its scorecard has not been adversely affected. The group's BBBEE status is currently a market-leading Level 2.

Industry matters

As announced on SENS on 1 February 2011, the group adopted a proactive stance in respect of the ongoing investigation by the Competition Commission into alleged anti-competitive behaviour within the construction industry. In 2008, the group took the lead and initiated an invasive internal investigation of its own. The group co-operated with the Commission for the last two years in the interest of determining if it had any exposure and to take advantage of the Commission's leniency programme to limit the risk of any penalties and/or fines. The group believes it has no such exposure, although this cannot be guaranteed until the completion of The Commission's investigation. The group is able to advise that it has recently signed a conditional leniency agreement with The Commission without penalty pending conclusion of the industry investigation. The board of Group Five once again confirms its support for the Commission's process and its commitment to assist the Commission in its objective to rid the sector of anti-competitive behaviour.

Operational overview

Group

For comparative purposes, we provide both the group's total operating margins as well as the operating margins per segmental report net of non-core/headline transactions of pension fund surpluses and deficits, fair value adjustments and profit/loss on sale or impairment of subsidiaries. We refer to the latter margin as the core operating margin, as it reflects the underlying operating performance. Both margins exclude the impairment on non-current assets adjustment.

The group's operating margins are reflected below.

	Year ended	
	30 June 2011	30 June 2010
Revenue (R'000)	**9 206 998**	11 337 588
Total operating margin %	**5.4**	7.7
Core operating margin %	**5.4**	7.3

Notes:
Total operating margin % is defined as operating profit before fair value adjustments and impairment adjustments as a % of revenue.

Core operating margin % is defined as total operating margin % adjusted for the non-core transactions listed above.

Introduction

The South African private sectors in which the group's Construction businesses operate, namely mining, industry, oil and gas, power and real estate, remained weak. Whilst some of the government-owned enterprises, namely SANRAL, Transnet and Eskom, continued to provide some workload, the timing of resumption in general government infrastructure spending has been and will remain a key factor for the domestic South African construction industry.

Although there is a planned capital investment in excess of a trillion Rand in public infrastructure spend and over R60 billion identified in the PPP and concessions market for large public buildings and roads, as well as power developments, only a few significant awards have been made in the last five consecutive halves. 'The group has therefore adapted its strategy to focus on a more balanced portfolio of public and private domestic markets, with a resumed emphasis on expanding international order books.

In this regard, there has been an increase in group activity in the African power, energy and mining sectors in gold, copper, zinc, uranium and coal in an increasing number of carefully selected countries.

In the Middle East, the group continued to actively pursue new infrastructure and industrial opportunities in new territories outside of the weak UAE market, although new contract awards are unlikely to be secured during before H2 F2012. The resolution of the commercial closure of the two previously reported terminated contracts in Dubai is proceeding in an orderly fashion. Contract values have been agreed, with cash flow on one having been received in accordance with the agreement, whilst cash flow on the second is under negotiation.

In Eastern Europe new road transport concession projects have become less popular with certain new governments, but the increase in traffic on existing toll routes and the opening of recently-completed new routes will provide a solid and sustainable business from which further opportunities will be accessed in open road and truck tolling in Eastern Europe.

Investments and Concessions

(including Infrastructure Concessions and Property Developments)	Year ended 30 June 2011	Year ended 30 June 2010
Revenue (R'000)	**554 659**	591 871
Total operating margin %	**10.9**	12.7
Core operating margin %	**11.3**	12.8

Investments and Concessions consists of Infrastructure Concessions and Property Developments. This cluster contributed 6.0% (2010: 5.2%) to group revenue.

Infrastructure Concessions

This segment demonstrated a consistent performance despite the continued effects of the deep recession across the European region.

Revenue, which consists primarily of fees for the operation and maintenance of toll roads, decreased by 6% from R557,2 million to R522,9 million. Despite this the core operating profit margin decreased only slightly to 14.0% (2010: 15.1%), with core operating profit of R73,2 million (2010: R84,0 million). The segment also recorded fair value adjustments of R33,2 million (2010: R13,5 million) as described above.

Going forward, Eastern European and African concession opportunities are set to remain attractive, with further new projects under development in toll roads and power. The timing of awards in the South African buildings PPP market, and renewable energy (REFIT) projects, however, remains uncertain.

Property Developments

Property Developments performed in line with our stated expectations and did not generate positive returns during this financial year. The group continues to progress its strategy of disinvestment from the residential sector in favour of securing A-grade commercial and retail property development positions in South Africa.

Therefore, as expected, Property Developments' revenue decreased by 8% from R34,6 million in F2010 to R31,8 million. The business incurred a core operating loss for the year of R10,6 million (2010: R8,0 million). The cluster also recorded fair value adjustments of R15,7 million (2010: nil) as described above.

The Property Developments strategy is on track and the group anticipates a return to stronger results post F2012, in line with previous expectations.

Manufacturing

	Year ended	
	30 June 2011	30 June 2010
Revenue (R'000)	**867 523**	866 221
Total operating margin %	**3.0**	10.0
Core operating margin %	**3.0**	9.5

Manufacturing consists of the fibre cement building products business, Everite, as well as steel fabrication businesses. Manufacturing contributed 9.4% (2010: 7.6%) to group revenue.

The cluster produced disappointing results in a market where both private and public sector conditions weakened substantially.

Revenue remained unchanged at R867,5 million (2010: R866,2 million). The reported core operating profit for the year was R26,3 million which was materially lower than the prior year of R R82,3 million, resulting in a core operating margin of 3.0% (2010: 9.5%).

The Fibre Cement business achieved reasonable returns by establishing alternative income streams, whilst removing costs within the traditional business model. In the period under review, further progress was made in developing the group's Advanced Building Technologies (ABT) product offering into the housing and building market which is set to become a significant source of off-take volumes for Everite.

Group Five Pipe benefited from increasing – although erratic – demand for bulk water transport systems, whilst the Structural Steel business unit suffered from low volumes, increasing steel prices and excessive costs and write downs within the Steel businesses.

Construction Materials

	Year ended	
	30 June 2011	30 June 2010
Revenue (R'000)	**434 233**	491 860
Total operating margin %	**(15.7)**	4.1
Core operating margin %	**(15.7)**	3.6

Construction Materials comprises aggregates, readymix concrete and mining crushing services. Construction Materials contributed 4.7% (2010: 4.3%) to group revenue.

This cluster experienced a particularly tough trading year, with volumes and prices depressed by the slow roll out of public infrastructure and current recessionary pressures in the residential property market. In spite of aggressive cost reduction and process improvement measures taken, this cluster had to deal with the worst downturn for decades in the aggregates and readymix market in Gauteng, its area of operation. The asphalt, mobile crushing, sand and mining crushing services operations have not been as materially affected.

The segment reported a core operating loss of R68,2 million against a core operating profit of R17,6 million in F2010. In the first half of the current financial year the cluster produced a core loss of R33,4 million. Restructuring costs were incurred predominantly in the second half.

Against continued difficult markets, the cluster was re-engineered and right-sized to survive the downturn and to create improved returns as the market recovers.

Structural, management and operational changes were implemented and a detailed market validation and asset verification and valuation exercise undertaken. Process costs were reduced and efficiencies gained to limit the margin impact from depressed volumes and prices. A gradual recovery is expected over the next 12 to 18 months.

Construction

Construction comprises the business segments of Building and Housing, Civil Engineering and Engineering. Engineering incorporates the businesses of Projects and Engineering and Construction (E+C).

	Year ended	
	30 June 2011	30 June 2010
Revenue (R'000)	**7 350 583**	9 387 636
Total operating margin %	**6.5**	7.4
Core operating margin %	**6.5**	6.9

Construction continued to be the largest cluster in the group. It contributed 79.9% of group revenue in the year under review (2010: 82.8%).

Construction revenue decreased by 22% from R9,4 billion to R7,4 billion and core operating profit decreased by 26% from R650 million to R480 million. However, the group is pleased to be able to report only a slight decline in core operating profit margin as a result of good contract execution and avoiding low-margin contracts wherever possible. The overall Construction core operating profit margin percentage was 6.5% (2010: 6.9%).

Building and Housing

	Year ended	
	30 June 2011	30 June 2010
Revenue (R'000)	2 143 004	3 186 142
Total operating margin %	6.4	7.4
Core operating margin %	6.4	6.9

In spite of the private building sector remaining extremely weak, Building and Housing managed to partially mitigate this impact through the contribution from some public sector contracts, as well as a focus on over-border opportunities, improved execution and supply chain savings.

Building and Housing revenue decreased from R3,2 billion (94% local) to R2,1 billion (70% local). The segment reported a 38% decrease in core operating profit from the prior year, with core operating profit decreasing from R220,0 million to R136,9 million. This resulted in the overall core operating margin percentage decreasing from 6.9% to 6.4%. The operating margin in this segment held up due to the completion of large contracts, as well as the timeous and successful focus on securing new over-border and domestic contracts in public buildings and the educational and private healthcare sectors.

During the year, the private sector property market remained weak, which was exacerbated by the slowdown in government's promised infrastructure spend and delays in awards of certain public private partnership (PPP) projects. A recovery over the next 12 to 18 months is expected.

The secured one-year order book stands at R2,1 billion (88% local) (2010: R2,6 billion and 78% local) and secured work at R3,1 billion (75% local) (2010: R3,5 billion (77% local)).

Civil Engineering

	Year ended	
	30 June 2011	30 June 2010
Revenue (R'000)	3 548 361	4 713 487
Total operating margin %	6.5	6.6
Core operating margin %	6.5	6.2

Civil Engineering includes the group's civil engineering activities in South Africa, the rest of Africa and the Middle East.

Civil Engineering reported a 25% decrease in revenue from R4,7 billion (83% local) to R3,5 billion (85% local), while core operating profit decreased by 20% to R231,9 million from R290,0 million. However, the group is pleased to report an improvement in core operating margin from 6.2% in the prior year to 6.5%.

This was due to successful execution and effective commercial management of large contracts in both the public and private sector despite additional once-off costs incurred in the rectification of a pipeline contract in Jordan. Although tendering activity is high and increasing, awards are currently infrequent.

In the Middle East, the group continues to be conservative in its treatment of the cancelled contracts which are progressing slowly to resolution, with cash already received by the group. Geographical expansion in the Middle East is progressing with due cognisance of the risk imposed by the recent political unrest in the region.

Civil Engineering's secured one-year order book stands at R2,5 billion (57% local), compared to R3,0 billion (85% local) as at 30 June 2010. The full order book is at R3,7 billion (58% local) (2010: R3,8 billion (80% local)). This is the largest order book of our Construction businesses.

Based on the group's tender opportunity pipeline, it expects meaningful contract awards to realise over the next 12 to 18 months, both in terms of its target geographies as well as its targeted sectors of mining, industrial, power, oil and gas, water and environment, transport and real estate. The group therefore remains cautiously optimistic about future prospects.

Engineering

	Year ended	
	30 June 2011	30 June 2010
Revenue (R'000)	**1 659 218**	1 488 007
Total operating margin %	**6.7**	9.9
Core operating margin %	**6.7**	9.4

The Engineering cluster incorporates the Projects business and the newly-constituted Engineering and Construction (E+C) business.

Conversely to the rest of Construction, Engineering experienced a recovery in its markets. Revenue increased by 12% from R1,5 billion (50% local) to R1,7 billion (52% local). The increase in the South African content of the revenue resulted in a core operating profit decrease of 20% from R139,9 million to R111,5 million. The core operating profit margin percentage decreased to 6.7% (2010: 9.4%).

A recovery in enquiry levels from the sub-Saharan African mining and energy markets is underway, which resulted in recent new contract awards. This trend is expected to continue in certain mineral categories. There was also a significant progression in the South African power, oil and gas and mining markets over the last six months, which augurs well for a sustained recovery ahead, albeit lumpy in nature.

The secured one-year order book remained at R1,4 billion, with 75% being local compared to 30 June 2010 when 51% was local. The full secured order book stands at R2,0 billion (83% local) (2010: R1,9 billion (64% local)).

Prospects

The group's core business of Construction continues to be strategically well positioned in active market sectors, as detailed above. The Construction one-year order book as at 30 June 2011 stands at R5,9 billion (2010: R7,1 billion). The group's total secured Construction order book stands at R8,8 billion (2010: R9,2 billion).

The Construction Materials business has been restructured and sized to suit current market activity. With new management in place and signs of a tentative recovery coming through, the group's guidance of a return to operating profit over the next 12 to 18 months appears reasonable. Manufacturing is expected to recover over the next 12 months as volumes in Everite have stabilised based on increases in exports, social housing demand and demand improvements from retailers. The steel businesses are likely to experience more pressure in the short term. Investments and Concessions is well positioned for growth. The Power sector looks likely to pick up with the call for tenders for renewable energy plants under the government's REFIT programme. The PPP process through treasury seems to be moving closer to making long awaited awards, the N1/N2 toll road award is expected during calendar 2011 and the African appetite for concessions-driven infrastructure is gaining momentum.

The value of the group's longer term target opportunity pipeline as at 30 June 2011 stood at R134 billion, up from R104 billion in February 2011, with activity in all its chosen sectors. The short term prospects arising from the pipeline amount to R23 billion.

On a group level, the South African government's public works programme has the potential to create growth opportunities within the South African construction sector. However, the lack of certain timing will further plague the domestic construction sector's ability to plan and forecast and hence employment levels continue to decline. Against this, the group will continue to grow its expertise and capacity in sectors where it has developed multi-disciplinary delivery capability, namely power generation, energy, transport, water, housing, mining and large public infrastructure works. The group's geographic diversification will continue, with active trading in 22 countries in the period under review with developing business in 7 new countries.

Certain African markets offer good prospects, with the outlook for private sector fixed investment and primary infrastructure starting to improve. Spending is however only likely to come through during the 2012 calendar year and at a slow pace, with more certainty emerging from calendar 2013 onwards. In the Middle East, the group has moved into new territories outside of Dubai. These markets provide technically attractive, opportunities aligned to the group's capabilities in infrastructure and industrial contracts. However, it will take some time to secure contracts.

The group's strategic focus, its specialist skills, its current order book and its pipeline of opportunities support a positive medium and long term outlook, although short term earnings are likely to remain under pressure.

Board changes

Subsequent to the year-end the following changes were made to the board of directors as non-executive directors:

- Mr OA Mabandla was appointed to the board on 1 August 2011
- Mr DDS Robertson was appointed to the board on 1 August 2011

Acknowledgments

The group wishes to recognise the hard work and commitment of its employees, without whom these results would not have been achieved.

On behalf of the board

P Buthelezi
Chairperson

MR Upton
Chief Executive Officer

5 August 2011

Board of directors: P Buthelezi* (Chairperson), MR Upton (CEO), CMF Teixeira (CFO), LE Bakoro*, L Chalker*†, Dr JL Job*, OA Mabandla*, SG Morris*, KK Mpinga*•, DDS Robertson*†

**(Non-executive director) †(British) •(DRC)*

Transfer secretaries: Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg 2001

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