GROUP FIVE

2006 annual report

SINCE 1974

Group Five operates in South Africa, the rest of Africa, the Middle East and Eastern Europe. Around 63% of revenue is generated in the group's home country, South Africa. This report aims to provide a detailed look at all of the group's operations, but more focus is given on its South African operations and environment.

CONTENTS

GROUP FIVE

Group Five is committed to continuous improvement in its disclosure to all stakeholders.

Following enhancements made to last year's annual report, the group has aimed to further increase the information it provides this year. The 2006 report is compliant with Global Reporting Initiatives to the extent indicated on page 182.

As Group Five has done for more than five years, the report is published on the same day as announcing its financial results to the market, less than three months after its year-end.

Some of the most noteworthy improvements to this year's report are:

- Expanded segmental reporting (page 9)
- Expanded regulatory section (page 49)
- Comprehensive strategic review (page 55)
- Value added statement (page 116)
- Fuller disclosure on transformation and Human Resources (page 131)
- GRI measurement table (page 182)
- Expanded financial reporting in compliance with IFRS requirements (page 192)

The group introduced a feedback forum to stakeholders last year and would again welcome your comments on the report. Please email the group at **feedback@g5.co.za**

In addition, stakeholders are encouraged to register for electronic Group Five information in the interest of the environment. Please type "Group Five electronic delivery" in your email title line and send to **webmaster@quickreport.co.za**

ABBREVIATIONS USED IN THE REPORT

For clarity and to prevent repetition, outlined below are the definitions of the main abbreviations used in this report. The reader should therefore refer to this page to obtain definitions.

AU	African Union
BEE	Black economic empowerment
BBBEE	Broad-based black economic empowerment
Bbl	Price per barrel
BOT	Build, operate, transfer
CBS	Corporate and business services
CEO	Chief executive officer
CETA	Construction Sectoral Education Training Authority
CFO	Chief financial officer
CPI	Consumer Price Index
CRM	Customer relationship management
CSI	Corporate social investment
DEAT	Department of Environmental Affairs and Tourism
DIFR	Disabling injury frequency rate
DME	Department of Minerals and Energy
DPI	DPI Plastics
DRC	Democratic Republic of the Congo
dti	Department of Trade and Industry
DWAF	Department of Water Affairs and Forestry

EE	Employment equity
EIA	Environmental impact assessment
EPC	Engineering, procurement and construction
EPCM	Engineering, procurement and construction management
EU	European Union
Everite	Everite Building Products
Exco	Executive committee
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GE	General Electric
GRI	Global Reporting Initiative
HCMS	Human capital management systems
HR	Human resources
HSE	Health, safety and environment
IDS	Infrastructure development services
IPMS	Integrated performance management system
IT	Information technology
IPP	Independent power projects
ISP	Internet service provider
JDE	JD Edwards (Oracle software solution)

JSE	JSE Limited
KAP	Knowledge, attitude and practices
LNG	Liquid nitrogen gas
Manco	Management committee
MD	Managing director
MEIP	Mechanical, electrical, instrumentation and piping
MERSETA	Manufacturing, Engineering and Related Services SETA
Mvela	Mvelaphanda Holdings Ltd
NEPAD	New Partnership for Africa's Development
NQF	National Qualification Framework
PDS	Property Development Services
PFI	Private Finance Initiatives
PPE	Personal protective equipment
PPI	Production Price Index
PPP	Public Private Partnerships
SA	South Africa
SADC	Southern African Development Community
SAFCEC	South African Federation of Civil Engineering Contractors

SAPS	SA Police Service
SEIFSA	Steel and Engineering Industries Federation of South Africa
SENS	Stock exchange news service
SETA	Sectoral Education Training Authority
SHE	Safety, health and environment
SHEQ	Safety, health, environment and quality
SHREQ	Safety, health, risk, environment and quality
SMEIP	Structural, mechanical, electrical, instrumentation and piping
The Construction Charter	The construction sector broad-based black economic empowerment charter
UAE	United Arab Emirates
UK	United Kingdom
Vaal	Vaal Sanitaryware
VBF	Gauteng Voluntary Bargaining Forum
VCT	Voluntary counselling and testing
WSSA	Water and Sanitation Services South Africa

VISION AND VALUES

During the year, the group refreshed its vision and values in line with its strategy. The group's strategy is to:

- Deliver quality and value in the building, infrastructure and engineering sectors through integrated solutions, products and services
- Be the industry's partner of choice
- Create consistent shareholder value by generating strong cash flows and moving operating margins up the margin curve through customer-centric and superior technical and business solutions

Each business unit has been tasked with drafting their own mission statements to ensure all operations play an active role in achieving the group's overall vision.

A focused internal communications process around the group's vision, values and cultural drivers will be rolled out in F2007 to empower staff members to truly live the values and make the vision real.

The group also launched The Group Five Way this year, which is aimed at ensuring consistent behaviour to result in continuous improvement and increased delivery. (Refer page 60.)

VISION

To be an exceptional provider of building, infrastructure and engineering solutions.

VALUES

The seven most important values are:

Integrity — Customer focus — Performance — Excellence

Innovation — Transformation — People well-being

GROUP FIVE

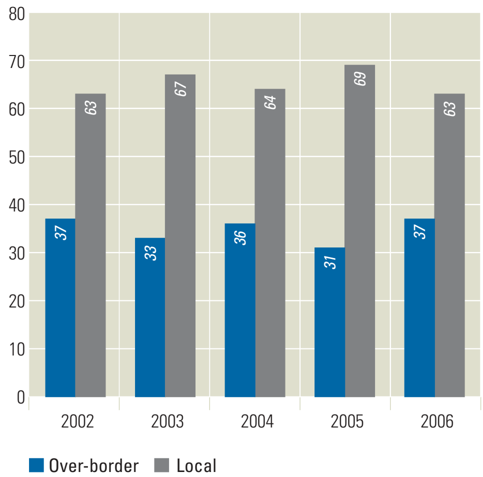
Making the values real

	Guiding principle	What it means to Group Five	Supporting actions	Page where further information can be found
VALUES	Integrity	Responsible behaviour	Code of Ethics	75
	Customer focus	Market positioning	Communications strategy CRM strategy	118
	Performance	Shareholder growth	Super-ordinate goals Strategic leadership	56 55
	Excellence	Continuous improvement and delivery	Six Sigma Contract lifecycle management ISO 9001/2000, 14001 OHSAS 18001 Health, safety and environment – zero harm Group Five Academy	Refer The Group Five Way – page 60
	Innovation	Continuous improvement	Six Sigma Technology	60 60
	Transformation	Sustainability	Strategic BEE partners Adopt Construction Charter	148 148
	People	Employer of choice	Strategy to attract, retain and develop the best talent	131

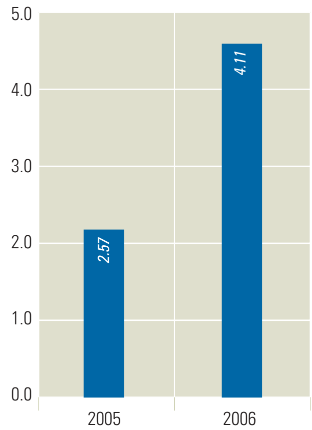
FIVE YEAR FINANCIAL REVIEW

(R'000)	2006
INCOME STATEMENT	
Revenue	5 864 721
Operating profit	240 799
Other income – net	21 503
Profit before finance costs and taxation	262 302
Finance costs	(30 329)
Profit before taxation	231 973
Taxation	(62 754)
Profit from continuing operations	169 219
BALANCE SHEET	
Interest of equity holders of parent	681 257
Minority interests	1 762
Total equity	683 019
Long-term liabilities	161 669
Liabilities relating to discontinued operations	148 285
Current liabilities	3 911 429
Total liabilities	4 221 383
Long-term assets	792 634
Assets relating to discontinued operations	338 667
Current assets	3 773 101
Total assets	4 904 402

Total revenue – over-border versus local
Percentage

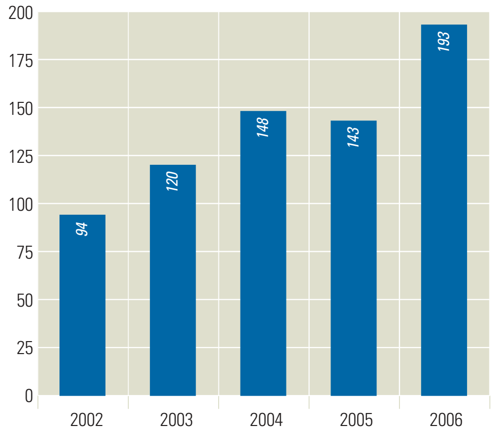


Operating profit margin
Percentage

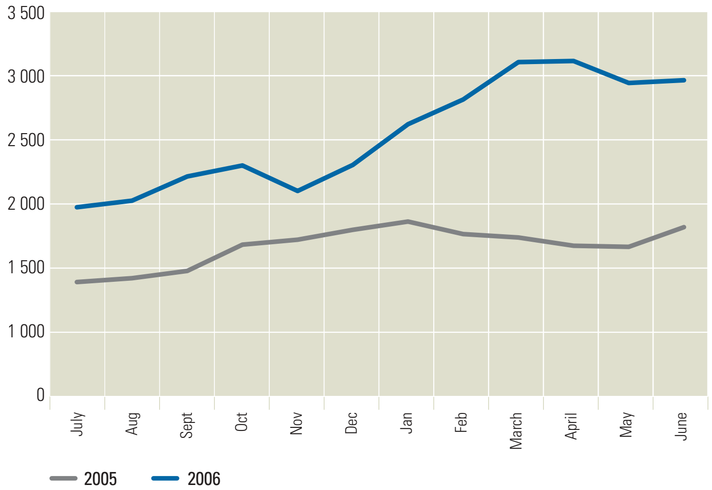


2005	2004	2003	2002
4 508 285	3 809 917	3 721 935	3 714 006
115 686	97 951	115 162	94 832
44 032	49 552	14 970	17 513
159 718	147 503	130 132	112 345
(25 922)	(29 780)	(24 913)	(24 148)
133 796	117 723	105 219	88 197
(26 199)	(22 294)	(25 876)	(17 962)
107 597	95 429	79 343	70 235
596 912	479 618	380 582	303 243
4 306	11 447	9 899	5 949
601 218	491 065	390 481	309 192
148 634	139 927	91 277	92 097
118 205	121 673	66 971	88 032
1 983 247	1 591 731	1 502 223	1 736 891
2 250 086	1 853 331	1 660 471	1 917 020
675 667	588 973	476 942	420 511
249 442	244 507	205 839	185 356
1 926 195	1 510 916	1 368 171	1 620 345
2 851 304	2 344 396	2 050 952	2 226 212

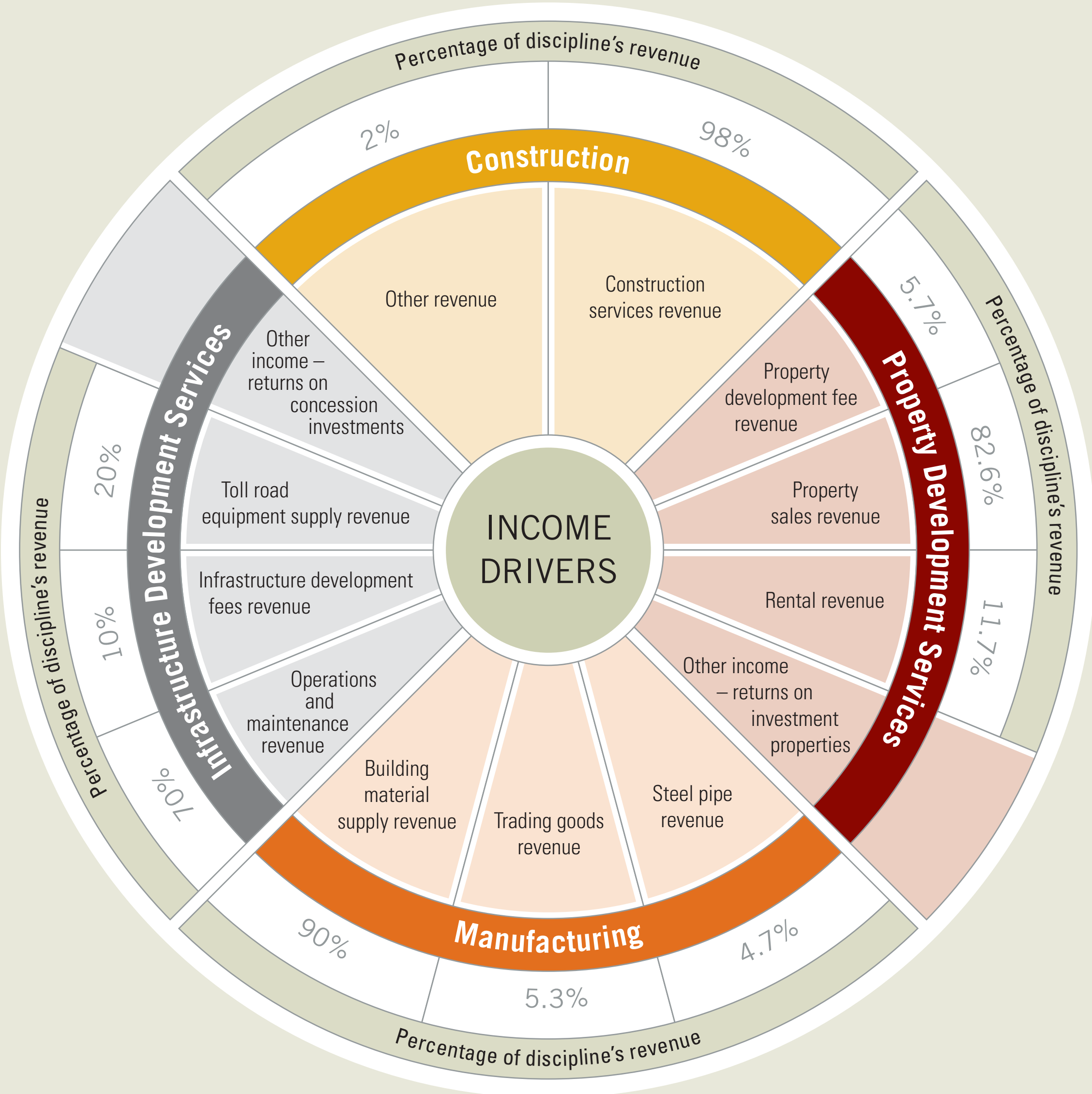
Headline earnings per share
Cents



Closing market price by month – 2006 versus 2005
Cents per share



INCOME DRIVERS



KEY MEASURES

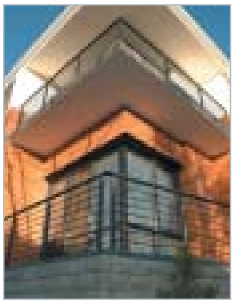
Group performance indicators

Revenue	2006 R'000	2005 R'000	2004 R'000	2003 R'000	2002 R'000
Infrastructural Developments	**316 217**	227 290	227 355	170 843	155 958
PDS	**126 970**	94 773	55 145	31 268	31 771
IDS	**189 247**	132 517	172 210	139 575	124 187
Manufacturing	**472 975**	446 308	358 296	320 329	354 229
Everite	**450 736**	431 776	358 296	320 329	347 994
Group Five Pipe	**22 239**	14 532			6 235
Construction	**5 075 529**	3 834 687	3 224 266	3 230 763	3 203 819
Building and Housing	**2 788 466**	2 268 610	1 917 554	1 433 665	1 433 000
Civil Engineering, Roads and Earthworks	**1 662 700**	1 051 679	986 836	1 290 642	1 364 000
Engineering Projects	**624 363**	514 398	319 876	506 456	406 819
Total revenue	**5 864 721**	4 508 285	3 809 917	3 721 935	3 714 006
Operating profit					
Infrastructural Developments	**32 450**	17 378	11 358	23 211	13 987
PDS	**25 244**	11 240	3 715	10 646	1 277
IDS	**7 206**	6 138	7 643	12 565	12 711
Manufacturing	**60 651**	36 157	27 969	6 773	(63 973)
Everite	**57 109**	34 369	27 969	6 773	(64 258)
Group Five Pipe	**3 542**	1 788			285
Construction	**147 698**	62 151	58 624	85 177	144 818
Building and Housing	**81 467**	44 158	74 581	43 760	60 320
Civil Engineering, Roads and Earthworks	**51 650**	(9 712)	(36 087)	21 475	55 360
Engineering Projects	**14 581**	27 705	20 131	19 942	29 138
Total operating profit	**240 799**	115 686	97 951	115 162	94 832
Overall operating profit margin (%)	**4.11**	2.57	2.57	3.09	2.55
Over-border revenue (%)	**37**	31	36	33	37
Cash generated/(utilised) – millions	**391**	111	49	(52)	(87)
Earnings per share (cents)	**195**	182	184	149	116
Headline earnings per share (cents)	**193**	143	148	120	94
Dividends per share (cents)	**56,0**	49,0	44,0	37,0	31,0
Net asset value (cents)	**921,6**	830,2	699,6	566,5	456,0

Market indicators

Market price – high (cents)	**3 250**	1 700	1 100	771	525
Market price – low (cents)	**1 520**	1 000	495	340	310
Market price – year-end (cents)	**2 875**	1 539	1 100	520	340
Market capitalisation – year-end (R'millions)	**2 867,1**	1 132,3	809,3	382,6	250,1
Value of shares traded (R'000)	**1 373 898**	536 994	229 924	199 495	80 616
Number traded ('000)	**57 970**	39 950	28 038	34 456	20 751

The current or future ability of certain business clusters and units and their respective market segments to support the group's financial targets has been re-evaluated. During F2006, Group Five therefore sold Vaal, DPI, WSSA and its Saudi Arabian pipe business. It also closed down and sold its Indian concession and toll road operations. The group's Roads and Earthworks business unit was downsized and incorporated into Civil Engineering. Infrastructural Developments was restructured through the integration of the activities of Intertoll, which designs and develops toll road facilities, supplies toll road management equipment and operates and maintains toll roads, the group's large-scale concession contract development activities and the group's Property Developments business. Below is the group's revised structure.



Infrastructural Developments

Infrastructural Developments is the integration of Intertoll and the group's large-scale concession contract developments, together with property developments. This business integrates the skills available in the various Group Five business units with its own development and operating expertise. Higher returns are sought through risk-managed participation throughout the project lifecycle, a lifecycle that consists to varying degrees of the following stages: development, financing and refinancing, construction, operations and maintenance, rehabilitation and handover or sale.

Manufacturing

Manufacturing produces a wide range of fibre-cement building products, ranging from architecturally aesthetic elements to practical building products such as ceiling board, roof sheeting, fascia and barge board ranges. The pipe factory specialises in the manufacturing of large diameter spiral-weld steel pipes.

Construction

Construction encompasses Building and Housing, Civil Engineering, Roads and Earthworks and Engineering Projects. This enables Group Five to deliver on multi-disciplinary development needs of the markets in which it operates. The group has also pioneered leading-edge products such as precast concrete building systems, which offer unique and cost-effective construction solutions to a wide range of clients.

GROUP FIVE

PROPERTY DEVELOPMENT SERVICES (PDS)

Creation of property investment assets • Commercial, industrial, retail and residential property developments

INFRASTRUCTURE DEVELOPMENT SERVICES (IDS)

Large-scale PPP infrastructure concessions • BOT projects • Financial engineering • Routine road maintenance • Route patrol services • Toll highway operations • Toll road development and investment • Turnkey integrated toll and traffic management systems

EVERITE BUILDING PRODUCTS (EVERITE)

Fibre-cement building products • Value-adding building products

GROUP FIVE PIPE

Steel pipes

BUILDING AND HOUSING

Commercial and retail developments • Educational facilities • Goldflex precast building systems • Healthcare facilities • Hotels and leisure facilities • Industrial premises • Mass and residential housing

CIVIL ENGINEERING (INCLUDING ROADS AND EARTHWORKS)

Concrete batch plants • Fluid distribution and storage • Metallurgical and flotation plants • Milling plants, material handling, silos and storage • Mining, power station and industrial structures • Port and marine facilities • Airports • Bridges and interchanges • Canals and pipelines • Dams • Rail projects • Roads and highways • Township infrastructure

ENGINEERING PROJECTS

Heavy lift rigging studies and lifts • High tension and low tension electrical • Industrial plant shutdowns • Instrumentation and controls • Mechanical installation • MEIP contractors offering single or multi-disciplinary services in mining, power, oil and gas industries

CEO: M Lomas

EXECUTIVE/STRATEGIC COMMITTEE

FINANCE AND STRATEGY

CFO: PS O'Flaherty
Strategy: TJ Woodhead

- Group policies and procedures
- Group finance and treasury
- Group tax
- Shared services – HCMS/payroll
- Group supply chain (buying; logistics; shared services – finance): ME Farrell
- IT
- Six Sigma
- Group strategy coordination
- Employee benefits
- Investor relations and reporting

HUMAN RESOURCES

Human resources director: TBA

- Group policies and procedures
- CSI
- Student management
- Employee relations
- Group training and development

RISK

Group risk officer: GD Mottram

- Group policies and procedures
- Exco project risk committee
- Group commercial and risk
- Legal and secretarial
- Internal audit
- SHREQ
- Group insurance
- Country risk

SUPPORT SERVICES

INFRASTRUCTURE DEVELOPMENT SERVICES (Africa and Europe)

Exco member: ECJ Vemer

- MD Concessions: ECJ Vemer
- General manager Intertoll Africa: T Mosai
- General manager Intertoll Europe: AJ Stratfold

PROPERTY DEVELOPMENT SERVICES (South Africa)

Exco member: TBA

- MD Property Development Services: TBA

MANUFACTURING (South Africa)

Exco member: JA Wallace

Manufacturing Manco

- MD Everite: SMO Milbert
- MD Group Five Pipe: GP Blackburn

The group's flat operating structure enables quicker decision-making, improved lead generation and the optimisation of synergies. Cross-selling is now strongly evidenced throughout the group, with business referrals from PDS and IDS to Construction and, wherever possible, Everite products are specified by PDS.

BUSINESS DISCIPLINES

CONSTRUCTION
(South and rest of Africa)

CONSTRUCTION
(Middle East)

Exco members
(Local and Africa):
GL Geldenhuis, P Le Sueur, MR Upton

Construction Manco

BUSINESS CLUSTERS

Building and Housing:
P Le Sueur

- MD Building:
  M van Rooyen
  Area director
  Building Cape:
  KD Miller
- MD Housing (Local):
  FH Enslin
- MD KwaZulu-Natal
  (Multi-disciplinary):
  CJ Jessop

Civil Engineering: (including Roads and Earthworks
(Local and Africa)
GL Geldenhuis

- MD Civil Engineering:
  AJ McJannet

Engineering Projects:
MR Upton

- MD Projects:
  MR Upton
- MD Power Systems:
  WI Zeelie
- General Manager G5
  Industrial Services:
  PM Denyssen

Civil Engineering Middle East:
TBA

- MD Civil Engineering:
  (Dubai):
  PG Keenan

- MD Plant and
  Equipment:
  MGC Hopkins

BUSINESS UNITS

Business Development Support

M Nkala
(Public Sector – South Africa)

G Heale
(Private Sector – Africa)

GEOGRAPHIC SPREAD

Against a fast-changing market, Group Five has analysed the current and expected future business environment of each of its market areas and the market niches the group pursues. Going forward, the group's aim will be to generate one third of revenue outside South Africa, with a focus on Africa and the Middle East, as well as a niche toll road concession business in Eastern Europe. Outlined on these pages are the countries where the group currently operates and future focus areas.

GLOBAL BUSINESS PHILOSOPHY

Over the last few years, the group has conducted an in-depth country and risk analysis to define its focus in countries outside of its traditional home country, South Africa. This process has enabled it to strategically select sustainable growth markets.

The philosophy of this process was to:

- Choose areas with sustainable and higher-margin construction markets, both in terms of size and growth
- Follow major clients
- Identify areas that are compatible with Group Five in terms of culture, skills, language, logistics, type of projects and previous experience
- Understand the risks
- Reduce short-term parachuting strategies

The construction industry is experiencing significant global growth, with demand pull on commodities fuelling massive exploration, mining and related infrastructure spend on the African continent not seen for many years. The world has committed huge sums to the infrastructure development of Africa and the Middle East and the private sector is investing heavily in Africa in mining infrastructure on the back of current commodity prices. Going forward, Group Five will therefore focus on the following countries:

SOUTH AFRICA

REST OF AFRICA

- Angola
- Democratic Republic of the Congo (DRC)
- Ghana
- Mauritius
- Mozambique
- Nigeria
- Tanzania and Zanzibar
- Zambia

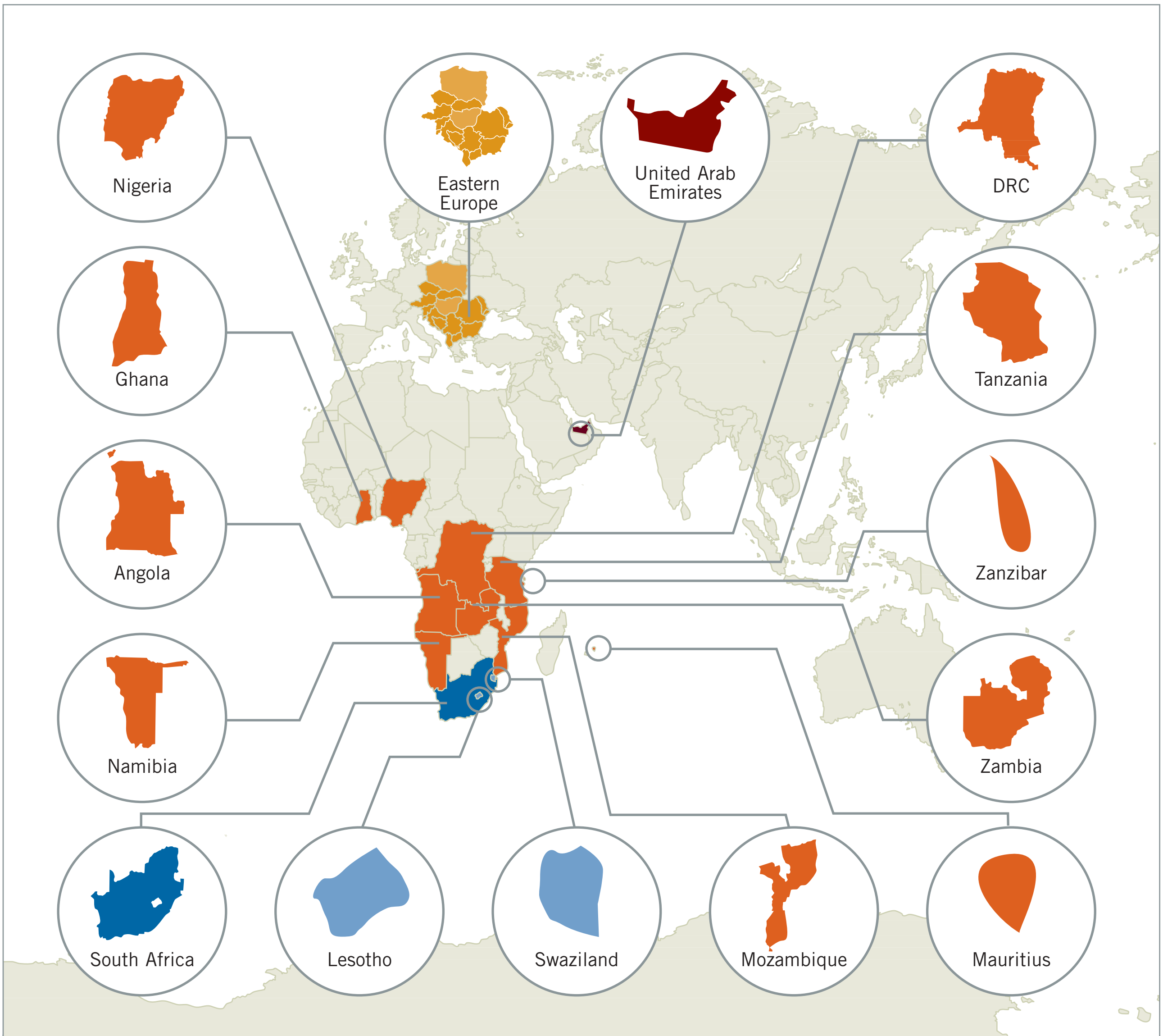
MIDDLE EAST

- Dubai, as the main United Arab Emirates (UAE) country

EASTERN EUROPE

- Hungary
- Poland

CURRENT COUNTRIES OF OPERATION



2005 Turnover	F2007 Order book million	F2006 Revenue million	F2005 Revenue million
South Africa	2 703	3 684	3 063
East and North Africa	621	882	612
Rest of Africa	695	648	736
Dubai	634	566	63
Eastern Europe	–	85	34
Total	4 653	5 865	4 508

Current staff per region*	**As at 30 June 2006**
South Africa	**6 411**
East and North Africa	**254**
Rest of Africa	**2 010**
Dubai	**1 365**
Eastern Europe	**194**
Total	**10 234**

*Permanent and contract employees

Highlights of Group Five's development

1 May 1974

Group Five Engineering launched as a public company from an amalgamation of CMGM, Peter Clogg Construction, MGC, McLaren & Eger and Basil Read

1978

A subsidiary company, Group Five Projects, is formed to focus on mechanical and electrical engineering for the mining industry

1982

A hostile asset stripping bid by Magnum Holdings group of investment companies is foiled when Darling & Hodgson acquires 30% of Group Five

1984

Group Five takes over all construction activities in Darling & Hodgson. Basil Read is acquired by its management who sever ties with Group Five

1986

Group Five is taken over by Gencor and later by industrial holdings company, Malbak

1987

A Group Five management consortium and SM Goldstein purchase a controlling interest in Group Five, following Malbak's proposal to sell control of the company to a large competitor

1989

SM Goldstein operations merged with those of Group Five

1992

Group Five enters manufacturing and expands its asset base through the acquisition of Everite, Vaal and DPI

1997

Group Five branding is achieved throughout all the construction-related activities

1998

Group Five expands international and local highway concession activities through the purchase of Intertoll

2000

Strategic growth in over-border operations drives revenue contribution from outside South Africa to 28%

2002

A three-year restructuring process is commenced which involves the collapsing of the pyramid shareholding structure and the flattening of operational structures

2003

Group Five secures work in the Middle East and opens an office in Dubai, setting the platform for the next phase of growth

2004

The objectives of the three-year restructuring process are achieved. The share price more than doubles and changes result in a focused, cohesive group with the ability to deliver sustainable growth. The group operates in 16 countries in Africa, the Middle East, Europe and Indian Ocean Islands

2005

BEE transaction finalised, resulting in direct black ownership of 26,1% of Group Five with immediate voting and economic rights

2006

With the expected significant growth in global construction, the group re-evaluates each of its market areas. Going forward, it will focus on South Africa, the Middle East, Africa and Eastern Europe. It refocuses its core businesses and sells DPI, Vaal, WSSA and its Saudi Arabian pipe business and closes down and sells its Indian concession and toll road operations

AWARDS

Group Five believes the best endorsement for the way it operates is external endorsement. It therefore prides itself on its accolades. Continuous improvement is a core focus of the group.

GROUP FIVE AWARDS SINCE 2004

Construction World Best Contracts 2005

- Highly commended: Civil Engineering and Building Contractors category and PPP category: **Berg River Dam contract (JV)**
- Special commendation: **Bank of Tanzania**

Construction World Best Contracts 2004

- Runner-up: **Cimangola Cement Mill, Angola**
- Third place: **Bank of Mauritius**

Concrete Society of South Africa

- Fulton Award special recognition 2004/2005: **2 448 units at the Nova Vida housing contract in Luanda, Angola**
- Concrete achiever of 2004: **Widening Edwin Swales Highway, KwaZulu-Natal, Joe Venter: General foreman**

MBA KwaZulu-Natal Region: Building Excellence 2005

- Winner: Industrial and Civil Engineering category:
  - **Blue Sky Expansion Contract, Mondi**
- Highly commended: Industrial and Civil Engineering category:
  - **Sapref LION contract**
- Highly commended: Multiple residential buildings category:
  - **Bondi Beach apartment block**
  - **Grand Floridian apartment block**
  - **Pallotine Fathers Residence**
- Highly commended: Alterations, additions, renovations category:
  - **ABI bottling factory**
  - **Pavilion shopping centre**

MBA National Safety Awards: 2004

- R50m to R200m — Runner up: **Grand Floridian, KwaZulu-Natal**; Highly commended: **Oyster Shells, KwaZulu-Natal**
- R20m to R50m — Highly commended: **Oyster Quays**
- R10m to R20m — Highly commended: **Oyster Pearls**
- 5-Star Safety Grading: **Group Five Industrial for SAPPI Kraft in Mandini**

NOSA 5-Star Safety Award

- Sasol Refinery, Secunda 2003/2004
- Sasol 1, Sasolburg 2004
- Iscor, Vanderbijlpark Nosa 4-Star 2004
- All mining contracts in Limpopo 2004

PMR Golden Arrow Award

- Construction category runner-up 2004
- Construction category runner-up 2005

PMR Diamond Arrow Award

Best construction company in KwaZulu-Natal 2004: **Group Five KwaZulu-Natal**

Other safety achievements 2004/2005

- DUBAL (Dubai Aluminium): 3 000 000 injury-free man hours
- SAPREF LION Contract: Outstanding Safety Record from SAPREF for contributing over 500 000 injury-free man hours
- Iscor Newcastle: 1 000 000 injury-free man hours
- Iscor endorsement for Best SHE systems in place
- Housing for Anglo Platinum, Rustenburg: over 3 000 000 injury-free man hours
- Housing for Anglo Platinum/ARM, Burgersfort: over 2 000 000 injury-free man hours
- Mondi RB 720 contract completed without any lost time injuries (April 2005)
- GTA contract Malongo: 1 000 000 injury-free man hours and still ongoing (Nov 2005)
- Waterval ACP contract completed without any lost time injuries (Aug 2005)
- Mondi Meerbank E&I contract completed without any lost time injuries (Aug 2005)
- Jwaneng Diamond Mine completed all contracts from Jwaneng Botswana, having won numerous awards and trophies for HSE performances throughout its presence on the mine (2002 to 2004)

Company awards

Financial Mail Top Empowerment Companies 2006:
- Most empowered company in basic industries sector of the JSE
- 9th position overall on the JSE
- 5th position overall in enterprise development ranking

FinWeek's Top 200 Listed Companies 2005:
- 7th position

Sunday Times Top 100 Companies 2005:
- 7th position

Institute of Chartered Secretaries and Administrators

Merit Award for Group Five 2005 Annual Report

OHSAS 18001 CERTIFICATION AND ISO 9001/2000 STATUS

Business unit	OHSAS 18001 readiness	Certification audit date	ISO 9001/2000 status	Certification audit date
CBS	100%	Listed	85%	Nov 2006
Civil Engineering (Dubai)	90%	Sept 2006	85%	Jan 2007
KwaZulu-Natal	75%	Sept 2006	100% listed	Listed
Building	60%	Nov 2006	In development	Jan 2007
Civil Engineering (Local and Africa)	100%	Listed	100% listed	Listed
Housing	80%	Nov 2006	In development	Jan 2007
Plant and Equipment	75%	Nov 2006	In development	Jan 2007
Engineering Projects	90%	Nov 2006	100% listed	Listed
Group Five Pipe	50%	Nov 2006	100% listed	Listed
DPI	60%	Nov 2006	100% listed	Listed
Everite	75%	Nov 2006	100% listed	Listed
Vaal	75%	Nov 2006	100% listed	Listed
WSSA	85%	Nov 2006	100% listed	Listed
Intertoll Africa	70%	Nov 2006	100% listed	Listed

(Refer page 167 for further details.)

Executive Committee

BOARD OF DIRECTORS

Executive directors

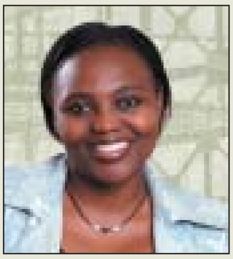
(1) (2)

Non-executive directors

(3) (4) (5)

(6) (7) (8)

Company secretary



(9)

(1)	MH (Mike) Lomas
(2)	PS (Paul) O'Flaherty
(3)	D (Dennis) Paizes
(4)	Baroness L (Lynda) Chalker of Wallasey
(5)	KK (Kalaa) Mpinga
(6)	SG (Stuart) Morris
(7)	MR (Rufus) Maruma
(8)	WV (Vusi) Mavimbela
(9)	NB (Nosisa) Kekana

MANAGEMENT COMMITTEE

(1) (2) (3) (4) (5) (6)

(7) (8) (9) (10) (11) (12)

(13) (14) (15) (16) (17)

CORPORATE	(1)	GD (Guy) Mottram	*Exco member: Group Risk Officer*
	(13)	ME (Malcolm) Farrell	*Group Supply Chain Director*
	(14)	M (Matt) Nkala	*Group Business Development Director: Public Sector*
	(15)	TJ (Tim) Woodhead	*Group Strategy Director*
MANUFACTURING	(2)	JA (John) Wallace	*Exco member: Manufacturing*
	(16)	SMO (Siegfried) Milbert	*Managing Director: Everite*
INFRASTRUCTURAL DEVELOPMENTS	(6)	ECJ (Eric) Vemer	*Exco member: IDS*
CONSTRUCTION	(3)	P (Paul) le Sueur	*Exco member: Building and Housing*
	(4)	MR (Michael) Upton	*Exco member: Engineering Projects*
	(5)	GL (Glenn) Geldenhuis	*Exco member: Civil Engineering (Local and Africa)*
	(7)	FH (Frank) Enslin	*Managing Director: Housing (local)*
	(8)	CJ (Craig) Jessop	*Managing Director: KwaZulu-Natal*
	(9)	AJ (Andrew) McJannet	*Managing Director: Civil Engineering/Roads and Earthworks (Local and Africa)*
	(10)	PG (Peter) Keenan	*Managing Director: Civil Engineering (Dubai)*
	(11)	WI (Willie) Zeelie	*Managing Director: Power Systems*
	(12)	MG (Guy) Hopkins	*Managing Director: Plant and Equipment*
	(17)	MH (Mike) van Rooyen	*Managing Director: Building*

Executive directors

MH (Mike) Lomas (58)

Chief executive officer

- Chartered engineer with degrees in civil, structural and water engineering
- Member of the Institute of Civil Engineers
- Joined the group in 1977 and appointed to his current position in 1997
- Drives group strategy together with the board and Exco

PS (Paul) O'Flaherty (43)

Chief financial officer

- BCom, BAcc, CA(SA)
- Member of the Accounting Practices Committee of the SA Institute of Chartered Accountants
- Previous audit partner at PricewaterhouseCoopers, heading up the Energy and Mining group
- Joined the group in 2002 and appointed to his current position in 2003
- Drives the financial strategy of the group
- Manages group efficiency drives, including HCMS, JD Edwards and Six Sigma

Non-executive directors

Baroness L (Lynda) Chalker of Wallasey (64)

Independent non-executive director

- Independent advisor to the World Bank
- UK Member of Parliament for Wallasey between 1974 and 1992
- UK government minister for 18 consecutive years (Minister of State for Transport, Minister of State for Africa, Foreign and Commonwealth office, Minister for Overseas Development)
- Director of a number of listed and unlisted foreign companies
- Appointed as a non-executive in 2001

MR (Rufus) Maruma (47)

Independent non-executive director

- STD (Dip), BSc PED, BA (Hons), MSc (Environmental Science), certificates in environmental studies
- Chairman of Stewart Scott International, Palabora Mining Company, Bohlweki Environmental, Bakwena Concession Company, Hansen & Genwest, Gem Projects, Gem Contracting and Roymec
- Appointed as a non-executive in 2002

WV (Vusi) Mavimbela (51)

Non-executive director

- BSc
- Executive director for business strategy with Mvelaphanda
- Held various government leadership positions, including political advisor and special advisor on intelligence and security matters for the office of the then deputy president, Thabo Mbeki
- Extensive knowledge and an in-depth understanding of developments on the African continent
- Appointed as a non-executive in 2006

SG (Stuart) Morris (60)

Independent non-executive director

- BCom, CA(SA)
- Practiced with KPMG for over 30 years. After that, he became the finance director at Nedcor from 1999 to 2004. Following the merger with BoE, he had Exco responsibility for finance, risk, tax, human resources and management services
- Member of the Council of the University of the Witwatersrand, chairman of Wits Donald Gordon Medical Centre, chairman of the audit committee of SA Eagle Insurance
- Appointed as a non-executive in 2005

KK (Kalaa) Mpinga (45)

Independent non-executive director

- BSc in Agricultural Economics and MSc in International Agricultural Development
- Previously an alternate director of Anglo American Corporation, where he was involved with general mining exploration companies throughout the sub-continent
- Chairman of Mwana Africa Holdings, director of the Bindura Nickel Corporation in Zimbabwe
- Experience in financial, legal and commercial negotiations with the World Bank, IFC, MIGA and African Development Bank
- Appointed as a non-executive in 2002

D (Dennis) Paizes (70)

Independent non-executive chairman

- BCom
- Retired as MD of Fedsure Asset Management in 1996
- Appointed as a non-executive of Group Five in 1996
- Appointed as chairman in 2005

Group company secretary

NB (Nosisa) Kekana (33)

Group company secretary

- BJuris, LLB
- Completed her articles of clerkship with XM Petse Incorporated, Umtata
- Admitted as an attorney in 1997
- Continued with XM Petse Incorporated as a professional assistant
- Moved to Johannesburg in 1998 and was employed as an associate by Chuene Kwinana Motsatse Incorporated in their commercial and litigation departments
- Consultant with the iLima Group in 2005 when she also obtained a Higher Diploma in Company Law at the University of the Witwatersrand
- Appointed to Group Five in 2005

Management

GL (Glenn) Geldenhuis (50)

Exco member: Civil Engineering (Local and Africa) and Plant and Equipment

- BEng (Electronics) (Hons), MBL
- Joined as MD of DPI in May 1998 and moved to management of construction activities in July 2004
- Appointed to Exco in July 2004
- Responsible for the integration of Civils Mining and Industrial, as well as Roads and Earthworks with Civil Engineering

P (Paul) le Sueur (49)

Exco member: Building and Housing

- BSc, QS, MAQS, RQS, MSc Building Management
- 25 years' experience in the construction sector
- Serves on the Inter Ministerial Task Committee responsible for the formation of the Construction Industry Development Board
- Joined in September 1984
- Appointed to Exco in July 2004
- Acts as a private sector representative on the Faculty of Engineering and Built Environment board at the University of the Witwatersrand

GD (Guy) Mottram (40)

Exco member: Group risk officer

- BCom, LLB
- Joined Group Five in April 2001
- Appointed to Exco in February 2005
- Focus area is risk management. He is also responsible for legal, commercial, company secretarial and compliance, SHEQ and internal audit throughout the group

MR (Michael) Upton (52)

Exco member: Engineering Projects

- BSc Eng (Electrical), Management Development Programme (MDP), Pr Eng SAIEE
- Joined in September 2002
- Appointed to Exco in July 2004
- He focuses on over-border mining projects and the group's expansion into oil, gas and power
- He has been instrumental in the establishment of the Group Five Academy with the Gordon Institute of Business Science
- Prior to Group Five he was with the NEI group for 22 years. He was appointed managing director of Reyrolle in 1997
- Reyrolle was acquired by ABB in 2001 and he was appointed vice president of the Power Technology Products division of ABB South Africa where he was responsible for generating and executing power generation and distribution projects in the utility, mining and industrial sectors in South Africa, sub-Saharan Africa and Iraq

ECJ (Eric) Vemer (41)

Exco member: IDS

- BSc Eng (Civil) (Hons), MBA
- Joined January 2005 as deputy MD of Intertoll
- Appointed to Exco in October 2005 and as MD of IDS
- Focus area is large infrastructure project development and concessions, including Intertoll
- Prior to joining Group Five, he was with HSBC Bank plc as head of Specialised Finance and Advisory for sub-Saharan Africa. He served on the executive management committee of HSBC Investment Services (Africa) (Pty) Ltd

JA (John) Wallace (48)

Exco member: Manufacturing

- BCom, Executive Programme in Advanced Marketing and Executive Management
- Joined April 2002. Since then he led the turnaround in Everite
- Appointed to Exco in July 2004
- He has vast experience in developing business strategies and turning around loss-making businesses. At Group Five, he has repositioned Manufacturing by disposing of non-core businesses to focus on future growth strategy
- Prior to joining Group Five, he was managing director of several manufacturing organisations involved with plastics, chemicals and related fields. He also has general management experience in trading organisations

FH (Frank) Enslin (50)

Manco member: Managing director: Housing (Local)

- BSc (Building Science), PCM, FCIOB
- 30 years' experience in the building and housing sector
- Joined in March 1996
- Responsible for the successful development of the local residential sector business. Now focused on the construction of entry level housing

ME (Malcolm) Farrell (42)

Manco member: Group supply chain director

- BCom, MBA
- Joined in April 2005 to facilitate group-wide efficiency improvement strategies
- Currently driving the implementation of the Six Sigma continuous improvement strategy throughout the group
- Executed the first year of a five-year supply chain strategy aimed at unlocking significant value through strategic supply relationship management
- Created a group logistics unit to develop core competencies in logistics, specifically for over-border contracts
- Reviewed the requisition-to-payment business processes, with optimisation strategies commencing

CJ (Craig) Jessop (39)

Manco member: Managing director: KwaZulu-Natal

- BSc Quantity Surveying, RQS
- Joined in November 2003 as commercial director for KwaZulu-Natal. Appointed as MD in March 2005. Has grown the business from R300 million per annum to over R400 million

Management *(continued)*

- He is a member of the Association of South African Quantity Surveyors and is registered with the SA Council for Registered Quantity Surveyors

PG (Peter) Keenan (49)

Manco member: Managing director: Civil Engineering (Dubai)

- Higher National Diploma Civil Engineering, attended Wits and UCT Executive Development Programmes
- Joined in October 1985
- Appointed MD of the Civils Mining and Industrial operations in October 1990
- Became MD of the Dubai Civil Engineering operations in May 2004
- His focus has been on setting up the Middle East operations in Dubai, which now has 2 500 employees

AJ (Andrew) McJannet (43)

Manco member: Managing director: Civil Engineering (Local and Africa)

- BSc Eng (Civil), BA (PPE), MA (Oxon), Pr Eng, MSAICE
- Joined in January 1987
- Appointed MD of Civil Engineering in 2002
- In July 2005 he was given responsibility for Civil Mining and Industrial
- In January 2006 he also took over Roads and Earthworks
- His business works closely with Engineering Projects to deliver multi-disciplinary contracts to the mining, power and oil and gas markets

M (Matt) Nkala (48)

Manco member: Business development director (Public Sector)

- BSc Eng (Electrical), MBL
- Joined September 2002 as MD of the KwaZulu-Natal operation, following the consolidation of all KwaZulu-Natal operations into a single entity
- Appointed to his present position in March 2005 to take advantage of increased infrastructure spend in South Africa
- His main focus is on strengthening relationships with local government

MP (Mike) van Rooyen (49)

Manco member: Managing director: Building

- BSc, Building Management PCM, MCIOB
- Joined Group Five in December 1986 as a senior engineer
- Appointed as MD of the Building business unit in October 2005
- His present focus is to ensure timeous and quality delivery of the current order book, whilst building additional capacity to position Building to take full advantage of the upturn in the market

TJ (Tim) Woodhead (46)

Manco member: Strategic development director

- BSc Eng (Civil), MBA
- Registered professional engineer and member of SA Institution of Civil Engineers
- Appointed to current position supporting the CEO and CFO in business strategy development in late 2005, whilst still MD of Intertoll. Full-time with group business strategy from May 2006
- Responsible for driving the business strategy development process, formulation and review of key strategies, facilitating execution of agreed strategies and business portfolio review
- Prior to joining Group Five in August 1992, his industry experience includes consulting engineering, quarrying, crushing and readymix concrete supply
- MD roles in Group Five since 1992: SA Readymix Concrete & Durban Mixed Concrete, IDS and Intertoll

WI (Willie) Zeelie (44)

Manco member: Managing director: Power Systems

- Higher National Diploma Electrical Engineering, Pr Tech Eng, SAIEE
- Joined in April 2003 as electrical and instrumentation director
- He successfully re-established this business within the group
- Appointed MD of the newly formed power business in October 2005
- His team has been responsible for securing the Ibom power project in Nigeria, the group's first turnkey power project, in line with its strategy of expansion into power

MG (Guy) Hopkins (40)

Manco member: Managing director: Plant and Equipment

- NH Dip Civil Engineering
- Joined in 1987 with Savage & Lovemore
- Broke service between 1993 and 1998 to work in the Civils sector, rejoined Group Five Roads North, appointed as contracts director controlling projects in South Africa, Botswana, Nigeria and Angola
- Appointed as general manager of Plant and Equipment during 2004 and tasked with merging all the plant companies into a single business unit
- In 2006 he was appointed as MD of Plant and Equipment
- All group assets, except the Middle East, are now controlled by Plant and Equipment

SMO (Siegfried) Milbert (45)

Manco member: Managing director: Everite

- BCom (Law), BAcc, CA(SA)
- Appointed in October 2002 as supply chain director for Everite, having come from Bosal Africa (Pty) Ltd where he was financial director
- During 2002 and 2003 he built up an outbound logistics service that reduced the cost of distribution and warehousing at Everite by 37.5%
- In 2004 he headed the Group Five JDE Integrated Manufacturing IT system
- In October 2004 he was promoted to operations director and in October 2005 he was promoted to his current position
- In the past year he has been involved in the successful launch of a roofing solution for the low-cost housing market and has repositioned this product for growth

SUMMARY OF REPORTS IN OPERATING ENVIRONMENT, STRATEGIC REVIEW AND YEAR UNDER REVIEW SECTIONS

For ease of reading for the time-pressured reader, the group has included a summary of the main points from the core sections of this year's annual report. This may result in some repetition for the detailed reader.

SECTOR REVIEW

pg 35

SOUTH AFRICA

pg 35

- Construction in isolation is generating in excess of R100 billion ($14 billion) in activity in South Africa, up 20% in a year, with residential construction continuing to lead commercial and civil construction
- The wholesale value of trade in construction and building materials is an annualised R40 billion ($6 billion)
- Cement is an accurate barometer of formal and informal construction activity. The domestic market grew by 11.6% in 2005 and is on track to grow at a rate in excess of 10% by volume this year, with civil engineering contractors demonstrating the largest percentage rise in demand of late
- Civils has continued to lag, although the mooted rebalancing away from consumer driven housing investment is becoming apparent. Close to R400 billion ($57 billion) is earmarked by public corporations for spending on electricity distribution and sea ports, airports, rail and harbours. However, not all of this will hit the ground and a not insubstantial proportion of the spend will be import-intensive, thus reducing the available domestic value-add
- Property development activities continue to be positively influenced by falling vacancy rates in offices and the beneficial effects of higher GDP growth on demand for industrial, warehousing, healthcare and retail space

- In terms of skills in the sector, South Africa currently produces less than 200 engineering graduates a year, half the level of 30 years ago. To meet the pipeline of contracts earmarked over the next five or more years requires at least 50% more graduates every year and around 5 000 additional practitioners in total
- Real compound growth of at least 6.5% for the industry as a whole is expected over a five-year period

REST OF THE WORLD

pg 38

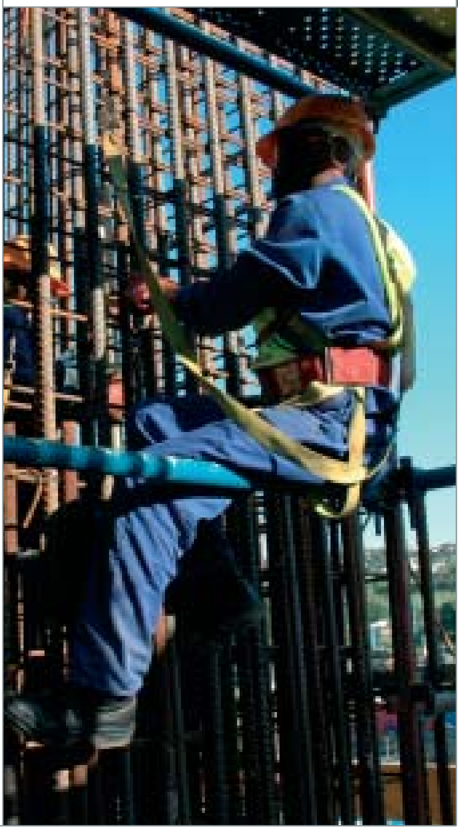
- Demand pull on commodities is fuelling massive exploration, mining and related infrastructure spend on the African continent not seen for many years
- The world has committed huge sums to the infrastructure development of Africa and the Middle East and the private sector is investing heavily in Africa in mining infrastructure on the back of current commodity prices
- Going forward, Group Five's aim will be to generate one third of revenue outside South Africa, with a focus on Africa, the Middle East and a niche toll road operator in Eastern Europe
- A small share of these markets, carefully chosen and well managed, should achieve significantly higher contribution margins, improving group bottom-line without increasing volumes
- Group Five already has a significant track record in Africa, the Middle East and Eastern Europe

Africa

- Generally, Africa lacks the abundance of competition in the construction sector normally found in first world countries, positioning Group Five well
- Several developing countries led by China, India and Brazil, are making significant inroads on the continent often linked to counter-trade deals associated with primary commodities
- Group Five is currently looking at developing a strategy to deal with the threat of other international players

Middle East

- Group Five established its operations in the Gulf in early 2004 and has already been awarded contracts of nearly R1,5 billion
- The Gulf Cooperation Council (GCC) countries sit on 57% of the world's proven oil reserves and on 45% of the world's proven gas reserves. The economies of all countries in the region are growing at a fast pace



- Group Five's focus over the short term will be restricted to Dubai and in particular the Dubai and Jebel Ali airports where infrastructure expenditure of $26 billion is expected over the next six years

Eastern Europe

- Group Five has operated in Eastern Europe through its Intertoll business since 1998
- There is a definite trend in Europe towards tolling of vehicles for the use of highways. It is likely that this will be well advanced by 2008
- Intertoll has reversed its focus back to Eastern Europe where it is able to leverage its market position in Hungary (M5 and M6), as well as in Poland where the A1 concession achieved financial close in July 2005
- Whilst the level of political risk is higher in this region, the countries that are being considered for future development work are either already in the EU or future EU accession countries
- Intertoll will develop these projects from its existing countries of operation in a measured and considered manner in parallel with its existing business

SOUTH AFRICAN REGULATORY REVIEW

pg 49

- Of paramount importance and overall application are the provisions of the **Occupational Health and Safety Act, No 85 of 1993**. In essence, the act requires the employer to bring about and maintain as far as is "reasonably practical" a work environment that is safe and without risk to the health of the worker
  - The group has a SHE policy that management and employees subscribe to
- **The National Environmental Management Act,** which was enacted on 29 January 1999, seeks to ensure that all measures and controls are in place to minimise degradation and pollution of the environment
  - In the group's operations, all contracts are executed after the contractor has been furnished with an approved EIA
- **The Construction Industry Development Board (CIDB) Act, No 38 of 2000** came into operation on 1 December 2000. Group Five is registered with the board and has obtained a rating of nine, which is the highest rating
- **The South African Council for the Project and Construction Management Professions** was established to provide for statutory professional certification, registration and regulation of project and construction management professions
  - Once the date has been declared, Group Five will ensure the registration of its professionals who fall under this category

- **Employment Equity Act, 1998.** The purpose of this act is to address the disadvantages in employment experienced by designated groups. Group Five is working towards achieving targets outlined in the act
- **Skills Development Act, 1999,** which is aimed at developing the skills of black people and to encourage workers to participate in learnerships and other training programmes. Group Five meets the requirements of the act
- **The Construction Charter**
  - Group Five has made significant progress in all the aspects of the Construction Charter

STRATEGIC REVIEW

pg 55

- Group Five's business vision has been sharpened and certain of the group's super-ordinate goals revised to ensure competitiveness
- The group has adopted a clear philosophy of developing business strategies to meet its chosen financial targets (as opposed to financial targets following the development of chosen business strategies)
- The current or future ability of certain business units and their respective market segments to support these group financial targets has been re-evaluated
  - Group Five sold Vaal and its stake in DPI
  - Roads and Earthworks has been downsized and incorporated into Civil Engineering
  - The group's 50% share in WSSA has been sold to Suez
  - Its Saudi Arabian pipe business has been sold
  - The Indian toll road concession business was closed and disposed of and the country exited
  - In addition, the group has refocused its construction geographic markets and withdrawn from higher risk areas such as North Africa

- The divestment from these various businesses and markets is to be replaced by investment in new areas of opportunity that have been identified in building materials and housing, infrastructure PPPs and large multi-disciplinary engineering contracts
- The group launched Six Sigma during this year as the main methodology to drive continuous improvement
- The group is also implementing the Group Five Way, a programme to ensure consistent behaviour and increased delivery

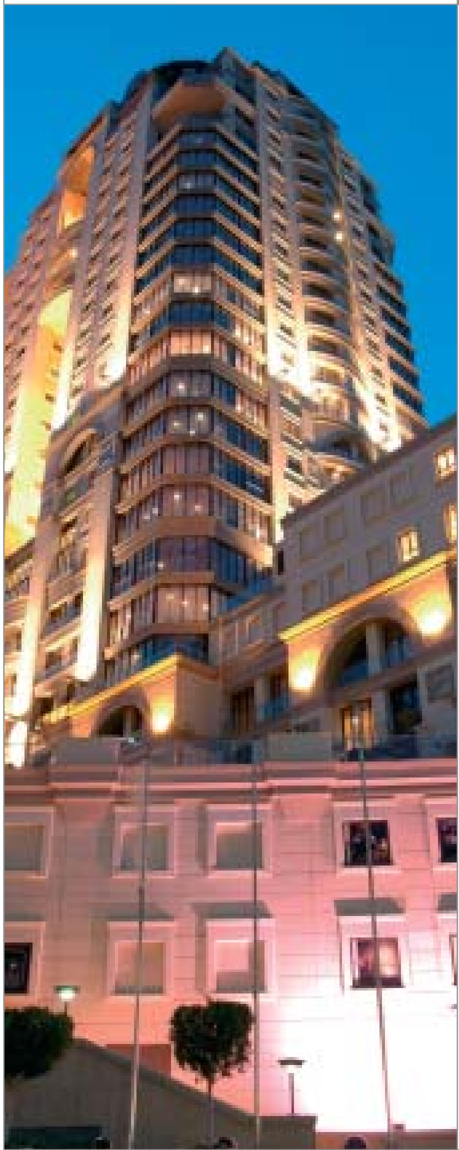
RISK MANAGEMENT

pg 67

- The group's approach towards risk remains focused on the management of risk rather than total elimination, and as such the group pursues opportunities involving some degree of risk
- The increasing pace of change, customer demands and market globalisation have put risk management high on the agenda of Group Five. Effective risk management is considered critical to the sustainability of the group in its current environment
- The responsibilities of the group risk officer were expanded during the financial year to ensure a more comprehensive approach to the group's risk management function. The new structure sees the risk officer taking responsibility not only for the immediate risk functions, but also for SHEQ, legal and commercial, country risk compliance, company secretarial and compliance, and internal audit
- It has become apparent that the availability of appropriate skills within the South African construction sector falls far short of that required to sustain the infrastructure spend. The attraction, development and retention of skills have therefore become key strategic risks facing the group
- The country risk management function forms part of the risk department to manage risks inherent to over-border contracts throughout the contract lifecycle
- With over 80% of group revenue derived from high-risk and relatively low-margin construction contracts, the group's primary risk management remains focused on these contracts
  - Some of the key risk initiatives introduced to the group during the year under review include:
    - Risk registers
    - Project risk filter document
    - Construction contract lifecycle standardisation
    - Contract dashboards

CHAIRMAN'S STATEMENT

pg 82



- The South African economy has enjoyed a period of strong growth in recent times with the construction sector, as a whole, continuing to show positive movement
- The global economy, however, is in a considerable state of flux and this fluidity will undoubtedly impact on the South African economy, as well as the group's other key areas of operation
- When viewed within this fluid global context, the overarching Group Five business strategy is of critical importance. Striking the right balance between the group's South African activities and over-border initiatives is key to its success
- The group recognises that there is an important symbiotic relationship between businesses and the societies in which they operate. Group Five fully recognises that its business success must necessarily be achieved within the context of a society that is effectively dealing with its key issues, and therefore strives to deal proactively with unemployment, job creation and skills development within the construction sector
- The results of the group's CSI initiatives are clear. Group Five is increasingly viewed as a responsible, active and visible corporate citizen – one that makes a significant contribution to the positive evolution of our society.
- The group's formal Code of Ethics was rolled out in the group in 2004 and Group Five will continue to firmly enforce its zero tolerance policy towards irregular business practices.
- Group Five has been recognised as the most empowered company in the basic industries sector of the JSE (Financial Mail, Top Empowerment Companies 2006), and as one of South Africa's leading companies in general. Ranked 7th in FinWeek's Top 200 Listed Companies in 2005, as well as in the Sunday Times Top 100 companies (2005), the group has clearly and consistently grown in stature as a truly empowered and progressive company

CEO'S REVIEW

pg 87

- Group Five's sixth consecutive year of double-digit earnings growth is as a result of organising the operations into focused business streams under strong leadership, supported by solid service functions, risk management and continuous improvement processes
- In every Group Five business unit the primary objective is to deliver higher profitability, measured by margin growth and return on capital employed
- The group's strategy going forward is to develop long-term sustainable operations with local partners in selected over-border markets

- The group is determined to eliminate loss-making contracts through continuous improvement methodologies and employing, developing and positioning the right people in the right jobs
- To meet the construction challenges, it is envisaged that by 2014 industry capacity needs to more than double from current levels and an additional 60 000 jobs need to be created in the sector.
- As growth prospects in local and strategic over-border markets have reached levels unseen for more than a decade, the most daunting challenge facing the group is the ability to secure experienced engineering competence and skilled resources to undertake the work.
- The group's growing investment in training and development initiatives is building capacity and strengthening operational management to address the challenge. (Refer page 131).
- The group is well positioned and focused to benefit from the favourable market conditions and exciting prospects. The group therefore anticipates that F2007 will yield improved margins, strong cash generation and good earnings growth.

OPERATIONAL AND FINANCIAL REVIEW

pg 92

- Revenue increased by 30% from R4 508 million to R5 865 million and operating profit increased by 108.1% from R115,7 million to R240,8 million, resulting in an overall profit margin percentage increase of 1.5% from 2.6% to 4.1%
- Headline earnings per share increased by 34.7% from R1,43 to R1,93 and earnings per share increased by 7.1% from R1,82 to R1,95
- Cash generated increased 251.6% from R111,2 million to R391 million
- PDS, which was established two years ago, and is characterised by lengthly lead and deal conclusion times, had an extremely successful year with operating profit increasing by 124.6% from R11,2 million to R25,2 million
- IDS' revenue, which consists primarily of fees for operations and maintenance of toll roads, increased by 42.8% from R132,5 million to R189,2 million; operating margins decreased from 4.6% to 3.8% primarily as a result of the write-off of specific project development costs for projects which are no longer being pursued
- PDS is currently developing 20 projects which should result in another strong performance in F2007
- An improvement in IDS' results is expected going forward due to the growing contribution of the higher-margin toll road contracts in Hungary, which continue to unfold

- Everite continued to operate at full capacity, encouraged by strong residential growth which led to revenue increasing by 4.4% to R450,7 million and operating margins improving by 4.7% to 12.7%
- Everite is investing R50 million in F2007 to increase capacity which should result in further earnings growth going forward
- Group Five Pipe showed improved results for F2006; prospects for F2007 are good due to securing a supply contract for the VRESAP pipeline
- Construction revenue increased by 32.4% to R5 076 million (2005: R3 835 million), operating profit by 138% to R147,7 million (2005: R62,2 million) with overall operating margin percentage improving by 1.4% from 1.5% to 2.9%; over-border work contributed 43.7% (2005: 41%) to construction revenue
- Building and Housing revenue increased by 22.9% from R2 269 million to R2 788 million, with operating profit almost doubling to R82,6 million from R44,2 million, resulting in an overall profit margin percentage of 2.9% (2005: 1.9%)
- Civil Engineering (including Roads and Earthworks) increased revenue by 58.1% from R1 052 million to R1 662 million and turned around the operating loss of R9,7 million in F2005 to an operating profit of R51,7 million at an operating profit margin percentage of 3.1.%
- Engineering Projects revenue increased by 21.4% from R514 million to R624 million, but operating profit decreased by 47.4% from R27,7 million to R14,6 million due to two poor performing contracts
- With a secured F2007 construction order book of R4,7 billion prospects for F2007 are strong

For summaries of the information contained in the group's sustainability report, please refer to the full sustainability section starting on page 115.

SECTOR REVIEW

OVERVIEW

Against a fast-changing market, Group Five has analysed the current and expected future business environment of each of its market areas and the market niches the group pursues. The business vision has been sharpened and certain of the group's super-ordinate goals revised to ensure competitiveness. (Refer page 56.) Going forward, the group's aim will be to generate one third of revenue outside South Africa, with a focus on Africa and the Middle East, as well as a niche toll road concession business in Eastern Europe.

The Sector Review that follows provides information on all four of the group's regional areas of focus, namely:

- **South Africa**
- **Rest of Africa**
- **Middle East**
- **Eastern Europe**

SOUTH AFRICA

Key points in this report

- Construction in isolation is generating in excess of R100 billion ($14 billion) in activity, up 20% in a year, with residential construction continuing to lead commercial and civil construction
- The wholesale value of trade in construction and building materials is an annualised R40 billion ($6 billion)
- Cement is an accurate barometer of formal and informal construction activity. The domestic market grew by 11.6% in 2005 and is on track to grow at a rate in excess of 10% by volume this year, with civil engineering contractors demonstrating the largest percentage rise in demand of late
- Civils has continued to lag, although the expected rebalancing away from consumer-driven housing investment is becoming apparent. Close to R400 billion ($57 billion) is earmarked by public corporations for spending on electricity distribution and sea ports, airports, rail and harbours. However, not all of this will hit the ground and a not insubstantial proportion of the spend will be import-intensive, thus reducing the available domestic value-add
- Property development activities continue to be positively influenced by falling vacancy rates in offices and the beneficial effects of higher GDP growth on demand for industrial, warehousing, healthcare and retail space
- In terms of skills in the sector, South Africa currently produces less than 200 engineering graduates a year, half the level of 30 years ago. To meet the pipeline of contracts earmarked over the next five or more years requires at least 50% more graduates every year and around 5 000 additional practitioners in total
- Real compound growth of at least 6.5% for the industry as a whole is expected over a five-year period

Introduction

The Group Five 2005 annual report Sector Review concluded with the observation that "the construction industry is at its most favourable juncture for over two decades". It is certainly proving to be true in 2006.

Nevertheless, challenges abound and continue to tax management of construction companies. Construction is a long cycle industry prone to bouts of instability – even the current upcycle has within it leaders and laggards. However, the overall trend has been firmly up since the bear market in fixed investment reached a nadir in 2002.

Hand in glove with construction is building materials – any enthusiasm at surging volumes is tempered by the keenness of competition brought about by an open economy. This is a boon for merchants, but margin detracting for manufacturers. Sound distribution relationships allied to local market knowledge and reliable supply remain key weapons against loss of market share.

Moreover, in an economy that exhibits greater stability and has low rates of inflation not seen since the 1960s, building costs are rising. The South African Bureau for Economic Research statistics reveal building costs and tender prices rising well above CPI and PPI. Tender prices alone are double the level of 2000, whilst building and construction materials on average are two thirds higher. Whilst there is a much-needed catch-up in pricing to restore profitability and returns, lasting price rises are a potential threat to the sustainability of the upcycle.

An additional challenge to the sector has been BEE – an aspect that construction companies have tackled admirably in different ways that meet strategic imperatives. The Construction Charter has addressed a multitude of impediments and met with broad acceptance in its pragmatic approach to addressing imbalances and winning a cooperative interaction with government. Nevertheless, legislative, coordination and resource obstacles remain and will stymie progress. The private sector has a particularly beneficial role to play in breaking logjams, should government be amenable.

Sector dynamics

If one subscribes to the view that South Africa is only in the foothills of a secular upcycle, there is at least ten years – if not longer – of expansion ahead. The industry would more or less have to double in size to get back to the contribution to GDP it was making 25 years ago.

Construction in isolation is generating in excess of R100 billion ($14 billion) in activity in South Africa, up 20% in a year, with residential continuing to lead commercial and civil construction. Moreover, the wholesale value of trade in construction and building materials is an annualised R40 billion ($6 billion).

Capital equipment suppliers are experiencing the highest levels of activity in many a year, with regional revenues rising strongly. Replacement capital equipment demand tends to be the norm at present for construction customers, and this is likely to be a precursor to future expansion demand. A strong resources dollar pricing environment is spurring new mining activity and thus demand for plant and equipment.

Cement is an accurate barometer of formal and informal construction activity – the domestic market grew by 11.6% in 2005 and is on track to grow at a rate in excess of 10% by volume this year, with civil engineering contractors demonstrating the largest percentage rise in demand of late.

Domestic cement demand is running at an annualised 12,5 million tons, a record high, and compares with 9 million tons as recently as 2003. Cement producers are not only modernising existing kiln capacity, but adding 3,5 million tons of additional capacity, with the potential for more. Despite this strong growth in consumption of cement, South Africa is at best a mid-ranking consumption country by international comparatives. Volume growth is expected to fall back as the housing sector, which is highly cement intensive, cools. However, average rates of growth around 5% are feasible in the medium term, which would be double the century mean.

Real output growth in the economy exceeds growth in fixed capital – in 2005 the real value of South Africa's GDP was 10% higher than in 2003. The annualised nominal value of GDP is R1,7 trillion, equivalent to $243 billion. By the third quarter of calendar 2006, the upward phase of the business cycle will have lasted for an unprecedented seven years – double the longest previous expansion post second world war. South Africans are getting richer on a per capita basis – close to $5,500 (and almost double that on a purchasing power parity formula).

A number of industries, not just construction, have discovered that whatever spare capacity there was has been absorbed due to the compounding effect of successive years of 3% to 5%

economic growth. There is no indication of this period of expansion ending any time soon. With infrastructure now at the forefront of the economic agenda, the virtuous multiplier benefits it brings are likely to reinforce expansion – it is after all investment in infrastructure that facilitates wealth creation.

Construction's value-add

Real value added in construction has grown at 10% for two years running, double the rate achieved in 2002 and 2003, and recent data points to acceleration. The value of building plans passed, an indicator of the building pipeline ahead, was over 50% higher in 2005 than in 2004, with square metres increasing by 22%. As predicted in the Group Five 2005 Sector Review, there has been a rebalancing in favour of the commercial sector. Moreover, the value of buildings completed was 40% higher in 2005 and square metres completed 19% higher.

Civil-related work has continued to lag, although the mooted rebalancing away from consumer driven housing investment is becoming apparent. There is a substantial rise in planned spend by public corporations on electricity distribution and sea ports, airports, rail and harbours. Close to R400 billion is earmarked for infrastructure over a five-year period, the bulk residing within the government sector – of which a third is government corporations such as Eskom and Transnet. Roads infrastructure alone is R60 billion, whilst R40 billion is allocated to sub-economic housing. Not all of this will necessarily hit the ground and the spend is likely to be over a longer timeframe than envisaged. Moreover, not an insubstantial proportion of spend will be import-intensive, thus reducing the available domestic value-add.

Property development activities continue to be positively influenced by falling vacancy rates in offices and the beneficial effects of higher GDP growth on demand for industrial, warehousing, healthcare and retail space. Leisure and residential shows signs of saturation. The difficulty of obtaining zoned land and the slow pace of planning approvals have created a certain scarcity value and have put a lid on unfettered growth that all too often in the past has led to painful busts.

The monetary catalyst of a 600 basis point reduction in interest rates since mid-2003 – despite the recent 50 basis point increase – has had a tremendous asset value and wealth enhancing effect. This has been accentuated by a real appreciation in the external value of the Rand, making durable goods that much more affordable. Real spend on durables and semi-durables is 70% higher than in 2000. Urbanisation and the investment qualities seen in bricks and mortar have set off a home improvement phenomenon that is benefiting building materials manufacturers and merchants and retailers.

The construction industry is receiving unaccustomed attention from a number of quarters – a place in the limelight is long overdue. For the first time in many years contractors have a pricemaker advantage in determining economic return thresholds on contracts. A few years back keeping capacity occupied and a valuable crew together may have taken priority over financial return. Whatever reservations there may have been about the industry as a fulfilling career choice have been expunged as companies scramble for a limited talent pool.

Operating margins

Examination of the historic accounts of a number of listed contracting companies indicates that there is no clear evidence that higher volumes of construction work are cascading uniformly through to higher operating margins – even though building materials manufacturing margins have improved substantially, not least in categories where the threat of import substitution is less acute. Contractors adopt a prudent accounting approach to revenue and profit and loss recognition. There is a tail of contracts in the system that may have been written at less advantageous margins than will be the case as the months go by. Capacity to contract is tightening and many contractors are likely to reach their limits within the coming two years unless human and equipment capacity is upgraded.

Higher margins are not merely an arithmetic financial statistic. The industry requires super normal returns during an upcycle to underpin sustainability during troughs. It is perverse that the engineering profession is typically subject to the awarding of work by tender that with rare exceptions favours lowest price – price as an absolute as opposed to relative value of professional capability in the context of multi-million Rand safety-critical, highly-trafficked infrastructure. As has been seen in countries such as Great Britain, contracting can indeed change beyond traditional tender work to partnerships that involve BOTs, PPPs, PFIs and other forms of equity participation. Given the quantum of delivery necessary to upgrade South African infrastructure, such partnership arrangements are not only desirable, but necessary.

Skills challenges

Physical resources such as plant and equipment are accessible within reason and indeed eminently affordable given the relative appreciation since 2002 in the weighted average exchange rate. Human resources are another matter and a pressing threat to contract execution.

Within the industry it takes many years to build an experienced talent pool. Civil engineers are the key – each supporting a number of jobs. South Africa currently produces less than 200 engineering graduates a year, half the level of 30 years ago and broadly in line with the fall in the share of construction value added to GDP. To meet the pipeline of contracts earmarked over the next five or more years requires at least 50% more graduates every year and around 5 000 additional practitioners in total. Even attaining that would mean the profession has fewer practitioners than there are accountants in the country. A skewed demographic towards those within ten years or less of retiring makes the reality even more depressing than the numerical statistics. Artisan registrations have all but collapsed to negligible levels. Attracting staff out of other commercial endeavours or retirement is not far fetched. The point made in last year's report of a strategy of "managed decline" being replaced by one of "managed recovery" is even more pertinent.

Relatively good news on the domestic front has not prompted a retreat from the hard won lesson of the need for diversification regionally and internationally by Group Five. Foreign contracting is not without its hazards, but there are fertile foreign fields for those with the patience to cultivate mutually trustworthy contracting relationships. Group Five has operated across Africa from a construction perspective for more than ten years and over-border construction revenues currently contribute approximately 44% of total construction revenue. Over-border construction work will continue as a feature of Group Five – flexibility is a competitive asset in ensuring full order books and reliability of cash flow and profits.

Conclusion

There is reason to hold to earlier estimates of real compound growth of at least 6.5% for the industry as a whole over a five-year period. Market sentiment is bullish and the pipeline of government and private work encouraging. Constraints have become more pressing this past year, but where there is an opportunity there is incentive to grasp such opportunity and the local industry is doing so in spades.

With acknowledgement to an independent research analyst

REST OF WORLD

Key points in these reports

- ➙ Demand pull on commodities is fuelling massive exploration, mining, energy and related infrastructure spend on the African continent not seen for many years
- ➙ The world has committed huge sums to the infrastructure development of Africa and the Middle East and the private sector is investing heavily in Africa in mining infrastructure on the back of current commodity prices
- ➙ Going forward, Group Five's aim will be to generate one third of revenue outside South Africa, with a focus on Africa and the Middle East, as well as a niche toll road concession business in Eastern Europe
- ➙ Group Five already has a track record in Africa, the Middle East and Eastern Europe
- ➙ A small share of these markets, carefully chosen and well managed, should achieve significantly higher contribution margins, improving group bottom line without increasing volumes

Africa

- Generally, Africa lacks the abundance of competition in the construction sector normally found in first world countries, positioning Group Five well
- Several developing countries led by China, India and Brazil are making significant inroads on the continent, often linked to counter-trade deals associated with primary commodities
- Group Five is currently looking at developing a strategy to deal with the threat of other international players

Middle East

- Group Five established its operations in the Gulf in early 2004 and has already been awarded contracts of nearly R1,5 billion
- The GCC countries sit on 57% of the world's proven oil reserves and on 45% of the world's proven gas reserves. The economies of all countries in the region are growing at a fast pace
- Group Five's focus over the short term will be restricted to Dubai and in particular the Dubai and Jebel Ali airports where infrastructure spend of $26 billion is expected over the next six years

Eastern Europe

- Group Five has operated in Eastern Europe through its Intertoll business since 1998
- There is a definitive trend in Europe towards tolling of vehicles for the use of highways. It is likely that this will be well advanced by 2008
- Intertoll has reversed its focus back to Eastern Europe where it is able to leverage its market position in Hungary (M5 and M6), as well as in Poland where the A1 concession achieved financial close in July 2005
- Whilst the level of political risk is higher in this region, the countries that are being considered for future development work are either already in the EU or future EU accession countries
- Intertoll's position as operator on the A1 project is considered a positive opportunity to expand its presence in Poland, considering the experience gained over the last eight years in the development of the project
- Intertoll will also take advantage of any operation and maintenance opportunities that may develop from its existing M5 and M6 motorway projects
- Intertoll will develop these projects from its existing countries of operation in a measured and considered manner in parallel with its existing business

SECTOR REVIEW – REST OF AFRICA

Introduction

Although there are still troubled areas in Africa, on balance, the political environment in sub-Saharan Africa has continued to improve in the recent past, with a number of countries moving towards democratic societies.

Various governments have launched initiatives to eradicate corruption and to simplify investment procedures to create more attractive opportunities for foreign investors.

Group Five has a strict risk management process in place in terms of doing business in Africa. The group has established a dedicated international risk management function as part of its risk department, responsible for collating, analysing and distributing relevant information on laws, regulations and in-country practices and to review compliance with such laws and regulations on a regular basis.

A comprehensive risk analysis is also carried out periodically on the countries in which the group operates, as well as those under consideration for future work. (Refer page 69.)

Going forward, the group has identified the following areas as main focus areas for the foreseeable future:

- Angola
- DRC
- Ghana
- Mauritius
- Mozambique
- Nigeria
- Tanzania and Zanzibar
- Zambia

Market background

The sustained growth in Asia and China, as the world's fastest growing major economies, has seen commodity prices rise dramatically. Recent market fluctuations aside, it is widely believed that the commodity price rises are relatively sustainable in the medium term as it is demand pull pricing arising largely out of Asian expansion. Many prices are expected to continue climbing. In spite of recent corrections, copper has climbed from $0,55 per pound to more than $3,00 per pound over the last 30 months, cobalt has moved with it, brent crude oil is stubbornly maintaining $65 to $75 a barrel, the gold price per ounce recently broke 25-year highs as it vacillates wildly around $600 (hovering between $550 and $730) and speculators talk $850 as inflation fears begin to be discussed again for the first time in many months, the platinum price per ounce is comfortably beyond $1 000 and the market for diamonds has recovered well.

The crisis in Iraq and the Middle East in general has seen a concerted effort to reduce dependence on Middle East oil. In excess of $100 billion has been committed to explore and develop new oil and gas fields in the African Gulf from Nigeria to Namibia and beyond. Massive programmes are already underway off Nigeria, Equatorial Guinea, Sao Tome/Principe, and Gabon. Angola has also committed to doubling its oil production by 2008 and even Chad joined the world of producers through the recently commissioned Cameroon pipeline. The Soyo LNG plant in Angola should start construction in 2007 and Cape Town has committed itself to building a massive oilrig construction and maintenance facility at Saldanha, the site of the Mossgas platform construction.

All of this means that demand pull on commodities is fuelling massive exploration, mining and related infrastructure spend on the African continent not seen for many years. For example, Angola is experiencing sustained 18% GDP growth and Equatorial Guinea is referred to as "Africa's Kuwait" in terms of potential wealth per capita.

Africa is often still regarded as a medium- to very high-risk territory depending on the country. Risks are indeed prevalent, with the continent generally commanding a higher risk-pricing premium in its business. Many companies therefore decide to stay out of Africa altogether, resulting in considerably reduced competition. In addition, the well-established and well-connected companies operating in African regions simply lack the capacity to undertake the sheer volume of construction activity taking place.

Group Five therefore believes that Africa provides a good market niche for the group. Well-executed contracts, set up with proper legal and financial structures and support, have the potential to realise relative earnings contribution levels considerably higher than in South Africa.

Group Five already has a significant track record in African countries. It has carried out more than $250 million of work in Angola, has had more than ten years' continuous operational presence in Ghana, mainly on the gold mines, carried out the construction of high-rise, multi-storey complexes in Tanzania and Mauritius, roads in many countries, shopping centres in Malawi, Mauritius, Zambia, Namibia and Zimbabwe and several mining developments on the Zambian copper belt and in Botswana.

Over the years, Group Five has established the core competencies necessary to operate in Africa. Group Five's Engineering Projects specialises in industrial and mining construction and Civil Engineering has a long track record in that field. One of the construction attractions about mining in Africa is that the sites are generally remote and in undeveloped regions. This means that roads, infrastructure, housing and buildings are required, as well as power reticulation, supply of potable and industrial water and sewerage systems. All of these requirements match Group Five's capabilities well.

Key to the success of over-border construction operations is logistics. The group's efforts in this regard have been centralised in one location in South Africa and a choice of preferred freight forwarding and other specialised partners selected. Knowledge at border entry points is critical and time and effort is being spent to ensure suitable specialised personnel are in place to handle these issues.

Other key challenges relate to an understanding of the regional laws and regulations, financial arrangements, taxation, repatriation of profits, duties and transfers and the like.

To address these, the group has established a dedicated international risk management function as part of its risk department, responsible for collating, analysing and distributing relevant information on laws, regulations and in-country practices and to review compliance with such laws and regulations on a regular basis. (Refer page 70.)

(1)

(1) *Dubai – Central Utilities Complex 6 at Dubai International Airport (Civil Engineering)* **(2)** *Installations for GTA, Cabinda, Angola (Engineering Projects)* **(3)** *Construction of Ruashi Copper mine, DRC (Engineering Projects)*

(2)

(3)

Market focus

Oil and gas/petrochemical

Crude oil prices remain stubbornly around the $70 bbl mark. Published figures vary widely, but Chevron Texaco alone has announced about U$60 billion expenditure in the West African gulf region over the next six years – much of it in Angola, Nigeria and around Equatorial Guinea and Sao Tome/Principe. Other oil majors have similar plans for Congo Brazzaville, Gabon, DRC and others. The Soyo LNG plant in Angola is well under way and exploration and production of Malabo, Bioko (Equatorial Guinea), will see the current two oil production platforms rise to four or five this calendar year alone, with many more by the end of the decade.

> Group Five is uniquely positioned amongst the construction majors, having a powerful link into Africa through the shareholding of its BEE ownership partner, Mvela.

Cabinda (Angola) has proven land-based reserves and Angola is committed to raising its 1,4 million bbls to 3,0 million bbls within the next few years.

Group Five has been based in Cabinda for the last three years, now negotiating its fourth contract in the region. These contracts have included the Takula GTA expansion, the new head office for Chevron in Cabinda town, the 600 000 barrel tank 11 and now the Malongo gas plant contract. Several other opportunities exist for the future in the region. Group Five's new relationship with its BEE partner, Mvela, has also raised the group's profile in many African oil rich countries, as Mvela is a major shareholder in Ophir Energy Company that owns significant exploration and other rights on the continent. In this regard, Group Five has explored several opportunities for the future.

The group's work with local communities in Africa has been a plus in the eyes of both local government and operators. Group Five trains and employs between five and ten local people for every expatriate South African working in the territory. In addition, Group Five houses many of its people in rented accommodation within the local community, renting plant and equipment, employing local transport and buying supplies and consumables – something that many expatriate organisations tend not to do even though they have lived in the region for decades. Clearly, this puts money back into the community and contributes positively to the overall wellbeing and quality of life in the region.

Even a small slice of this large, dollar-based construction expenditure, performed well and consistently, should significantly improve the group's net margin.

Copper/cobalt

The copper and cobalt halcyon days have returned to the Zambian/DRC copper-belt. The previous copper-belt extended from Ndola in the south through Kitwe to Chingola in the north. When prices crashed through $0,55 per pound some years back, mines were sold, contracts stopped and millions lost. Prices have been sustained in excess of U$2 per pound for some time now and the once-deserted mines are again up and running. New mines, like Kansanshi, Frontier, Ruashi and Lumwana, are already producing or under construction and several more are on the drawing boards in both northern Zambia and southern DRC. The new copper-belt runs west and north from Chingola, covering an area more than twice the size of the previous copper-belt.

Opportunities in these regions include roads, housing, buildings, civil construction, dams, irrigation canals, MEIP construction and considerable power generation and transmission.

Gold, platinum and uranium

All three minerals have recently touched 30-year price highs as gold beat $600 per ounce and platinum exceeded $1 000 per ounce. Despite recent corrections, prices have significantly improved from several years ago. Group Five has already secured significant mine construction contracts in Namibia on uranium mines and the Ghana goldfields production expansions.

In South Africa these opportunities are also expanding. The strong platinum price has resulted in many of the South African projects that were postponed in 2003/2004 being re-launched. Group Five has a very strong track record in the platinum sector, having built much of the civils works and significant portions of the mining and concentrator plants. Group Five has also built some large mass residential schemes in this sector.

Major developments in Uganda are already under way and all traditional mining regions are reacting to these favourable market prices. These developments are private developments with little, if any, government equity participation.

Uranium has also become an interesting opportunity on the continent, with Engineering Projects securing a recent contract in Namibia to build an uranium processing plant for Langer Heinrich Uranium (Pty) Ltd, a member of Paladin Resources Limited. For many years perceived to be politically and environmentally unfriendly, nuclear energy is now seen as one of the few viable alternatives to oil and coal that is not a threat to global warming and world pollution. It is also expected that fusion technology will be developed in the next 20 years. A number of nuclear plants are currently under construction worldwide – eight in Africa – with significant increased demand for uranium. Supply has not changed until recently. The Namibian plant will shortly be followed by other plants in Malawi, Algeria, Mali, Zimbabwe and others. Significant capital spend in the short term is expected.

Power

Group Five, in partnership with GE, is building a 160 MW gas-fired power station at Ibom in Nigeria. In addition, a second power station is under final negotiation in the same country. The need for power and the utilisation of flared gasses have created several opportunities across the continent.

In addition, Eskom has started its long-awaited generation capacity upgrade in its Highveld generating region in South Africa and the coming years will see Project Alpha being constructed in Limpopo province and other generation projects elsewhere in southern Africa. Group Five has been involved in the construction of all the large stations in the past throughout southern Africa and should be well placed to support the Eskom programme.

The new wave of emerging mining companies establishing in Africa also provides an opportunity for Group Five's focus on total construction solutions to the mining industry. Group Five has been invited to participate at an early stage of project feasibility in partnership with engineering and technology companies.

The group's experience in these territories, and its strong relationships with some of the designers and potential owners of these plants, should benefit the group going forward.

Infrastructure

There is hardly an African country that does not have a need for significant infrastructure development. Group Five is uniquely positioned amongst the construction majors, having a powerful link into Africa through its BEE partner, Mvela. Mvela is pursuing its own interests in oil and minerals across Africa and forging positive links for Group Five. Linking Group Five's participation to something more solid is critical and a few examples of potential opportunities are listed below:

- Grand Inge hydroelectric scheme. The Congo River has hydro-generating potential in excess of 70 000 Megawatts (Eskom currently has a capacity of 45 000 Megawatts) with Grand Inge alone at some 35 000 Megawatts. President Thabo Mbeki has managed to get this project listed as a high priority NEPAD project (along with several others of interest to Group Five). This has become important for the central African continent as a whole, especially at current oil and coal prices
- The Kinshasa/Brazzaville bridge across the Congo River is under discussion and has been listed as a key AU-approved NEPAD project
- Housing is a desperate requirement almost everywhere on the continent. Carefully selected contracts in the right territories that are well executed could be a long-term, sustainable opportunity at better-than-average returns
- The shortage of power on the continent is an opportunity for the group's newly established Power Systems business. A particular focus is on the IPP sector in West Africa and in a deregulated South African industry

Industrial contracts

Most industrial contracts in Africa are private sector investments with a strong interest for the group. Group Five has successfully constructed cement plants, water treatment and sewerage plants, oil storage tank farms, pulp and paper plants, materials handling contracts and major airport structures.

Some of the potential opportunities over the medium to long term that exist on the continent are:

- Potash mining and woodchip plants in Congo Brazzaville

- Harbour development on Bioko island (Equatorial Guinea)
- Oil and gas terminal in Cabinda, Angola
- Cement plant extensions in Luanda, Angola and Benin
- Power generation plants in Nigeria and elsewhere
- Gold and uranium reduction plants in Ghana and Botswana
- Diamond mines in Angola

Conclusion

The world has committed huge sums to the infrastructure development of Africa and the private sector is investing heavily in Africa in oil, gas and mining infrastructure on the back of current commodity prices.

South African companies generally enjoy a political advantage in Africa over Americans and most EU nations as members of the AU and drivers of NEPAD. The culture of "Africans helping Africans" is taking hold and the need to spend throughout the continent is being recognised.

Several developing countries led by China, India and Brazil, are making significant inroads on the continent, often linked to counter-trade deals associated with primary commodities. The need for raw materials, especially oil, is driving many deals which often affects mining, mineral rights, oil access and access to infrastructure development funds.

Group Five is currently looking at developing a strategy to deal with the implications of Asian and South American players. Currently, the group's relationships, knowledge of local systems and laws and quality of service, together with local training and employment, adds value beyond the lowest price option often brought by these players. However, this might not continue and a targeted approach is required.

Having said this, the amount of work and spend being undertaken on the continent and especially in territories where Group Five has already established a foothold is far larger than the group could possibly handle with its limited resources. A reasonable share, carefully chosen and well managed, should achieve significantly higher contribution margins, improving group bottom-line without increasing volumes.

SECTOR REVIEW – MIDDLE EAST

Overview

Group Five established its operations in the Gulf in early 2004 and has already been awarded infrastructure contracts of nearly R1,5 billion with every indication that opportunities will continue. The group operates in Dubai in a very successful partnership with local construction player Al Naboodah Contracting Company.

The group has already completed or is in the process of completing:

- A power plant for the US Marine Corps in Iraq valued at R50 million and a R21 million plant contract for Dubai Aluminium
- Dubai Civil Aviation (DCA) contract for the construction of the Cargo Mega Terminal at the Dubai International Airport with an approximate value of R800 million. This is one of the largest multi-disciplinary contracts ever undertaken by Group Five
- Emirates aeroplane test centre for GE/Emirates Airlines with a value of R120 million
- A central utility complex at the Dubai airport valued at R200 million and a duty free warehouse at the Dubai airport worth R120 million

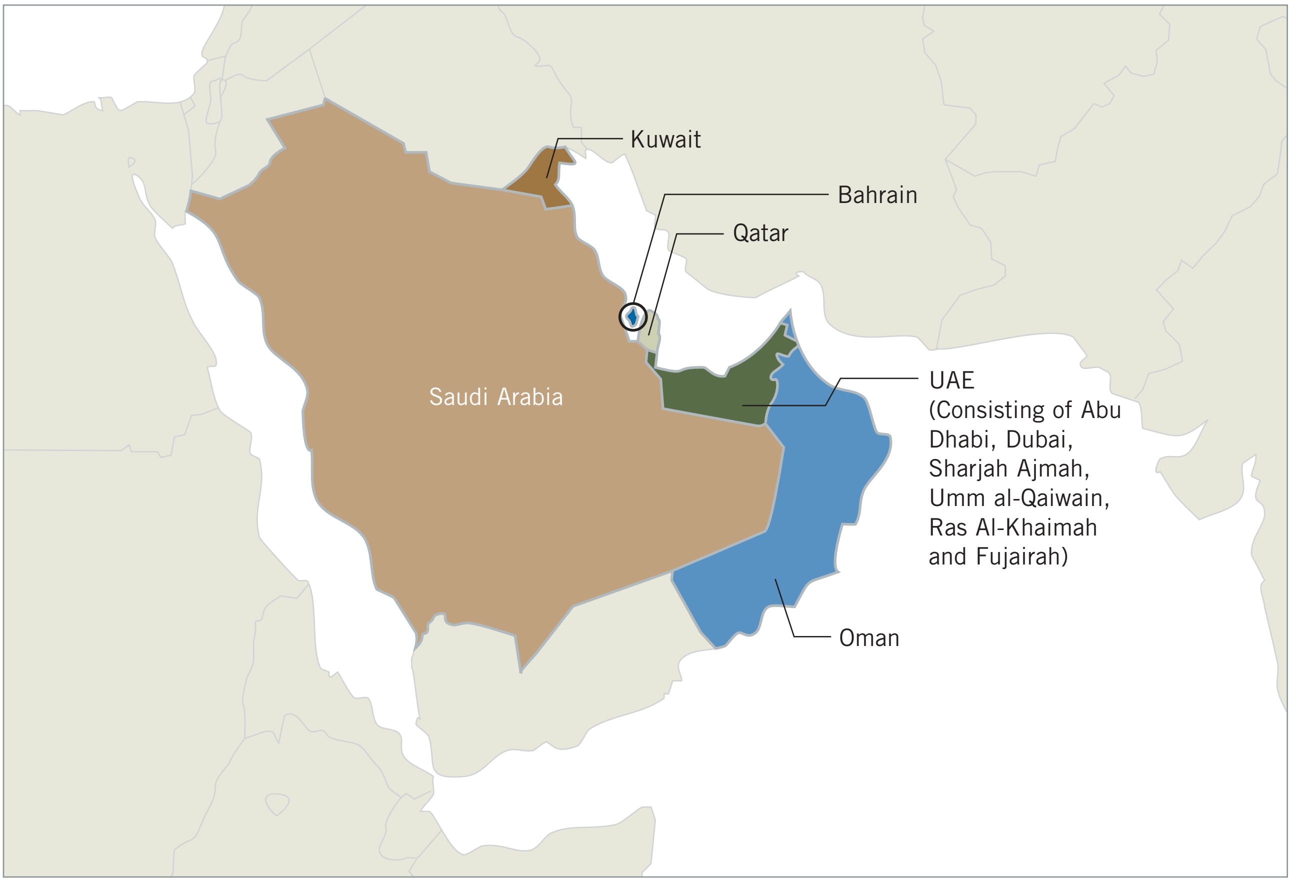
The group has an established operation in Dubai with 2 500 people and is confident that it will continue to be a successful market to operate in. With available opportunities it is expected that the group will employ over 4 000 people in the medium term.

Based on the success in Dubai and the growth in the Middle Eastern region, the group is currently evaluating other opportunities to roll out over the medium term (two to five years).

The GCC countries are situated on 57% of the world's proven oil reserves and on 45% of the world's proven gas reserves. The economies of all countries in the region are growing at a fast pace. For example:

- Manufacturing in the UAE increased by 8.4% in 2006
- Qatar has in excess of $30 billion construction contracts currently running. These include about 25 hotels, the

GCC countries



Doha International Airport and the Pearl Residential Development

- Saudi Arabia has indicated a shortage of more than 20 000 engineers and 300 000 technical and tradesmen to meet the planned construction investment of more than $100 billion over the next five years
- UAE is set to invest over $238 billion on construction contracts between now and 2011

Dubai, one of the UAE countries, has become the regional trading and financial hub and the global tourism destination of the region.

The strong domestic demand and growing number of foreign firms investing in the UAE has resulted in a boom for the real estate and construction sectors. The numerous infrastructure contracts, airport expansions and power and desalination plants planned will continue to provide a steady source of growth for the region's construction sector.

Current Group Five contracts in Dubai are focused on civil SMEIP work at the airports. Dubai International Airport still has numerous contracts in the pipeline and major activity will be around the infrastructure of the new Jebel Ali Airport. Expenditure of approximately $26 billion is expected at these two airports over the next six years.

Private investors in the commercial and residential sectors are also providing opportunities. In this area, a selective approach will be followed to ensure acceptable margins. Dubai Municipality has also announced an AED45 billion (R90 billion) upgrade to road infrastructure.

Group Five's focus over the short term (one to two years) will be restricted to Dubai, in partnership with Al Naboodah. Attention will be given to leveraging:

- Further work at the airports
- Cost-efficiencies based on lessons learnt over the last two years
- The relationship with Al Naboodah who have vast local knowledge

Available skills and accommodation remain critical issues and Group Five is pursuing a number of initiatives in this regard.

The sustainability and amount of contracts on offer in the region is in line with the strategy of establishing Group Five Middle East as a contractor of significance in the longer term, focused on airports, power plants and industrial/commercial/low-rise complexes.

SECTOR REVIEW – EASTERN EUROPE

Introduction

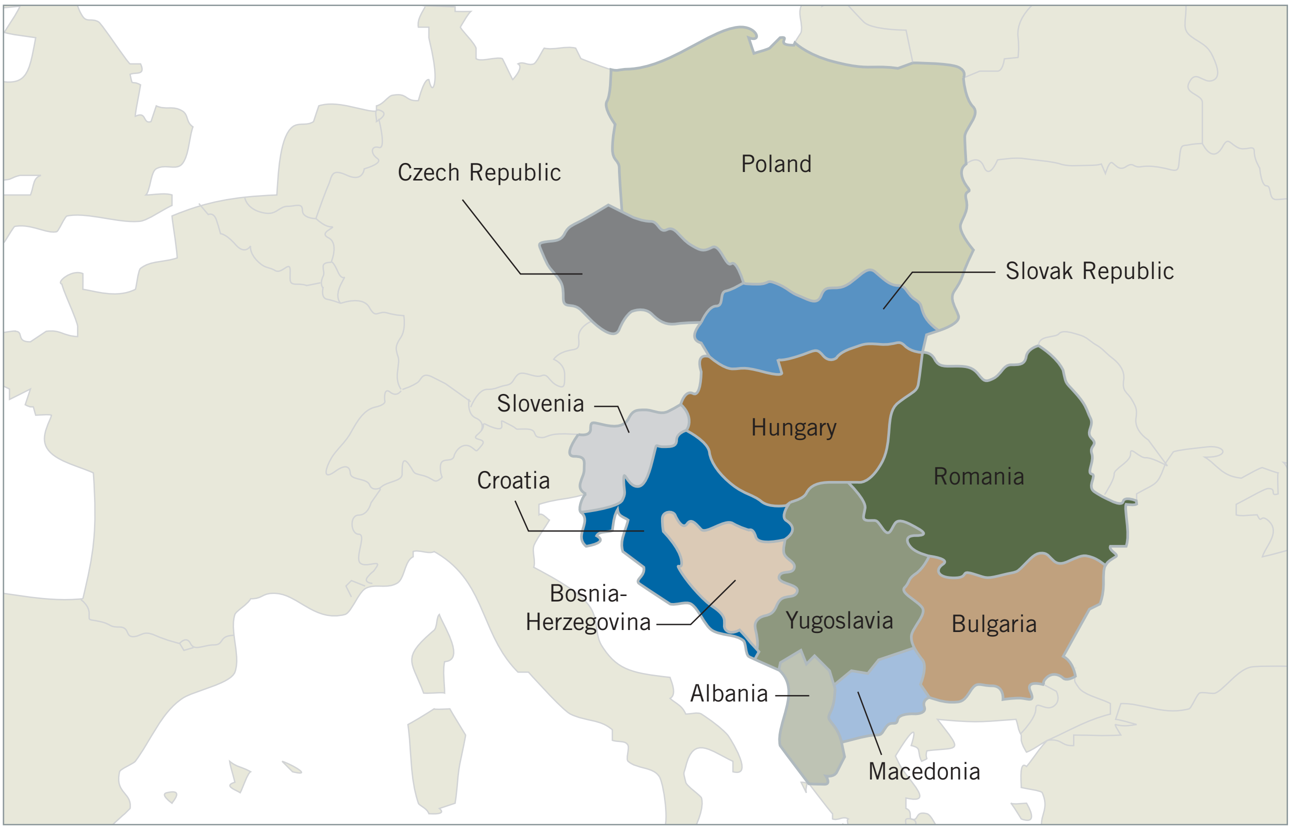
Group Five has operated in Eastern Europe through its Intertoll business since 1998.

Intertoll Europe is currently pursuing a strategy of protecting its existing market and redefining its target area to secure increased turnover and earnings in its core market and to take future commercial advantage of the trend towards road pricing in Eastern Europe.

Background

Europe broadly comprises three economic zones: the Euro zone countries of the west, the EU accession countries of Central and Eastern Europe, and the most eastern ex-communist and Balkan states, which have either not applied for EU accession or are some way off in achieving the requirements for membership.

Eastern Europe



Although Europe has generally recovered and registered growth over the past three years, the strongest growth has occurred in the emerging market countries in the east. Their currencies have until most recently consistently outperformed the Euro, regaining much of the ground they lost in the late 90s.

The western developed economies generally have adequate, although ageing, infrastructure, which requires maintenance and upgrading. Road user charges in these countries have only been common for particularly expensive infrastructure such as estuarial crossings, but there is increasing interest in congestion-charging schemes to encourage the use of public transport. The common market has also led to an increase in heavy goods vehicles transiting through the central countries, and the necessity for governments to impose charges for road maintenance costs.

The EU accession countries are in a process of allowing their currencies to be fixed to the Euro and subsequently converted to Euro. To achieve this, government expenditure has to be carefully managed as they pursue certain EU standards and norms for infrastructure and service delivery. These competing requirements make it necessary for innovative infrastructure financing schemes and PPPs.

The non-EU accession countries have more traditional economies using state expenditure and personnel for the provision of highways. In certain instances, government-controlled road tolling is in use.

Group Five in Europe

Intertoll secured its first contract in Eastern Europe in Hungary in 1996. This was to operate the M5 route under a long-term contract for the concession company, AKA, responsible for developing, financing, constructing and operating the facility under a 35-year concession agreement with the government of Hungary. Group Five acquired Intertoll in 1998, recapitalised the company and pursued a number of international opportunities. In Europe these efforts were focused on the emerging eastern markets.

In the late 90s these economies were rapidly improving, but a number of economic and political shocks frustrated the progression and successful financing of certain key contracts through traffic risk-based concessions. The emerging markets' fall out from the Asian financial crisis, the war in Serbia, and a backlash in regional politics, all had negative effects. As a result, Intertoll, whilst still maintaining its operating presence in Hungary and development efforts for the consortium holding the A1 motorway concession in Poland, turned its attention to the less affected and lower risk markets of Western Europe.

Experience in a number of bidding consortia and consulting appointments for contracts in Ireland, the UK, Germany and Greece was also gained between 2001 and 2006. However, competitive bidding pressures between motorway development consortia increased during this time, resulting in winning bids containing extremely poor margins for contractors and operators alike.

As a consequence, Intertoll has reversed its focus back to Eastern Europe where it is able to leverage its market position in Hungary (M5 and M6), as well as in Poland where the A1 concession achieved financial close in July 2005.

Whilst the level of political risk is higher in this region, the countries that are being considered for future development work are either already in the EU or future EU accession countries. These countries also have lower development costs, limiting write-offs on unsuccessful tenders, higher potential investment and returns and higher margins on operations and maintenance work. However, Intertoll Europe remains open to pursuing contracts in Western Europe that fulfil hurdle rate criteria, if requested to participate in such contracts by key development partners.

Poland

Population 39 million, GDP per capita US$12 700, real growth 3.5%, inflation 2.1%

Although some members of the new centre-right coalition government in Poland have recently made negative comments in relation to PPP and concession contracts for infrastructure development, the reality is that the poor condition or, in some cases the absence, of adequate motorways in Poland remains a primary driver of the need for PPP/concession and/or operating type contracts to address the road infrastructure backlog. The government has already indicated its willingness to proceed with new A1 South (Stryków – Pyrzowice) and A2 (Stryków – Konotopa) concession projects, with the tenders expected in the first half of 2007.

Intertoll's position as operator on the A1 project is considered a positive opportunity to expand its presence in

Poland, considering the experience gained over the last eight years in the development of the project. It will take time for the government to positively decide that the PPP model represents the best means to finance motorway infrastructure. However, as the pressure mounts to improve the Polish motorway network, Intertoll will be in a good position to take advantage of any of the long-term business prospects that become available.

Group Five acquired Intertoll in 1998, recapitalised the company and pursued a number of international opportunities.

Hungary

Population 10 million, GDP per capita US$16 100, real growth 3.9%, inflation 3.7%

In many respects the Hungarian market is similar to Poland. After a promising move to availability-based PPP contracts with limited traffic risk transfer, and the formation of a cross-ministerial department to progress such infrastructure development (the M6 Phase 1 being the main outcome), this department was recently disbanded.

Although the pace of concessions has slowed (M6 Phase 2 to now be constructed on standard construction procurement methods), Hungary runs a high budget deficit (currently 7%) and needs to progressively reduce this to 3% before joining the common currency area. The risk of existing concessions (eg M5 and M6) being nationalised must be viewed in this context and the group continuously keeps abreast of progress in this regard.

Intertoll will, however, take advantage of any operation and maintenance opportunities that may develop from their existing M5 and M6 motorway projects, such as the possibility of the existing concessions being extended and additional facilities such as weigh stations being needed for operational requirements.

Positioning in the long term

There is a definite trend in Europe towards tolling of vehicles for the use of highways. It is likely that this would be well advanced by 2008 and that technology would have advanced sufficiently by then for integrated road network user charging systems to be implemented at a reasonable cost. Pilot schemes on congestion charging have also indicated that, after the usual acclimatisation period, increasingly affluent users will accept payment of such charges, especially if payment results in reduced congestion and journey times and is associated with reductions in fuel excise and motor vehicle licence charges.

It is apparent that the number of vehicles on the roads of European countries is going to continue to increase no matter what improvements are made to public transport services (for example, only about 10% of journeys in the UK is undertaken on public transport). Similarly, the ever-increasing environmental lobby will continue to restrict the amount of new motorways that can be constructed. A recent study of the M25 in the UK argued against any further expansion of the motorway on the basis that improvements generated additional traffic to the extent that congestion after improvements soon exceeded that experienced prior to the improvements.

The only effective long-term solution, as western governments are realising, is to charge the user for motorway usage. Since EU competition rules are unlikely to change, and there are currently 25 countries all heading the same way; there has to be room in the market for at least four or five major players. It is therefore possible that contracts could be structured on a basis that is similar to the concession structure with which Intertoll is familiar. It is expected that rather than single identified roads being tolled in future, road user charging will shift towards fees for road usage over networks.

To compete for these multi-faceted schemes, successful consortia will consist of a group of partners with the required know-how, technologies, funding, operational management and administration capabilities.

As a knowledgeable toll road developer, operator and investor with ten years' experience in concessions, Intertoll is well placed to actively develop partnerships with companies that are considered future role-players on these road user network charging schemes. Intertoll will develop these projects from its existing countries of operation in a measured and considered manner in parallel with its existing business. The contribution from this new business activity is expected to become significant in the long term.

SOUTH AFRICAN REGULATORY REVIEW

Key points in this report

Relevant legislation in South Africa

- Of paramount importance and overall application are the provisions of the Occupational Health and Safety Act, No 85 of 1993. In essence, the act requires the employer to bring about and maintain as far as is "reasonably practical" a work environment that is safe and without risk to the health of the worker
  - The group has a SHE policy which management and employees subscribe to
- The National Environmental Management Act, which was enacted on 29 January 1999, seeks to ensure that all measures and controls are in place to minimise degradation and pollution of the environment
- The Construction Industry Development Board (CIDB) Act, No 38 of 2000 came into operation on 1 December 2000. Group Five is licensed with the board and has obtained a rating of nine, which is the highest rating
- The South African Council for the Project and Construction Management Professions was established to provide for statutory professional certification, registration and regulation of project and construction management professions
  - Once the date has been declared, Group Five will ensure the registration of its professionals who fall under this category
- Employment Equity Act, 1998. The purpose of this act is to address the disadvantages in employment experienced by designated groups. Group Five is working towards achieving targets outlined in the act
- Skills Development Act, 1999, which is aimed at developing the skills of black people and to encourage workers to participate in learnerships and other training programmes. Group Five meets the requirements of the act
- The Construction Charter
  - Group Five has made huge progess in all aspects of the Construction Charter

Introduction

As a listed South African registered company, Group Five is governed by a set of stringent legal and compliance requirements, as determined by:

- The JSE Listings Requirements
- The Securities Services Act
- The Companies Act
- The King II Report on Corporate Governance (King II)

The group and the board of directors of Group Five are committed to the application of all the requirements of the laws and principles of South Africa and other countries in which it operates and to comply with all the applicable Listings Requirements imposed by the JSE during the period under review.

A comprehensive report of the company's governance principles can be found in the corporate governance section of this report on page 124.

The group operates through various business clusters and units that focus on specified work within the building, infrastructure and engineering sectors. In their operations, the businesses have a host of laws and regulations to comply with. The key ones are discussed in this report.

Occupational health and safety

Due to the nature of the business of the group, of paramount importance and overall application are the provisions of the Occupational Health and Safety Act, No 85 of 1993. In essence, the act requires the employer to bring about and maintain as far as is "reasonably practical" a work environment that is safe and without risk to the health of the worker.

Of great relevance to Group Five is the promulgation of the construction specific regulations under this act, which were promulgated on 18 July 2003. These regulations place onerous requirements on the contractor to ensure that the safety, risk management and smooth running of the operations on site are within the scope of the act. Group Five has dedicated resources to uphold the safety, health and quality of its operations. The group has a SHE policy that management and employees subscribe to. For a detailed SHEQ report refer page 167.

> As a listed South African registered company, Group Five is governed by a set of stringent legal and compliance requirements.

Environment

The National Environmental Management Act, which was enacted on 29 January 1999, seeks to ensure that all measures and controls are in place to minimise degradation and pollution of the environment. The regulations under this act require the undertaking of an EIA in many cases where there is a change in land ownership. In the group's operations, all contracts are executed after the contractor has been furnished with an approved EIA report. Any subsequent activities that may have substantial detrimental effects on the environment are brought to the attention of the client before such activity is executed.

To uphold the spirit of the country's environmental laws at Everite, where negligent disposal of waste can cause irreparable harm to the environment, the group has a waste disposal policy. All non-process waste is removed by a registered waste disposal contractor to a waste disposal facility that is approved and registered with the DWAF and DEAT. Comprehensive efforts are in place to reduce volumes of process waste generated. This has been successful in the past six months.

The waste site at Everite is actively managed and covering takes place progressively as dumping occurs. Ground water and dust are monitored as a matter of routine. Everite has entered into a record agreement with DWAF/DEAT in respect of the dump site, whereby it was agreed that the site will close in December 2008. Following that, final rehabilitation work will be completed and the site will be monitored as prescribed, with an environmental audit being conducted every year by an independent external agency.

Construction licences

To implement an integrated strategy for the reconstruction, growth and development of the construction industry, the Construction Industry Development Board (CIDB) Act, No 38 of 2000, came into effect on 1 December 2000. The act states that a contractor may not undertake any construction works or portion thereof for public sector contracts awarded in terms of a competitive tender, unless the company is registered with the CIDB and holds a valid registration certificate issued by the board. Group Five is registered with the board and has obtained a rating of nine, which is the highest rating. The contractor grading is determined by the contractor's financial strength (financial turnover) and works capability (largest contract undertaken).

It is not only the group's operations that are highly regulated in the construction industry, but also the professionals who operate within the industry. The group's people are accountable when carrying out their duties through statutory bodies that have been established for that purpose. The South African Council for the Project and Construction Management Professions was established to provide for statutory professional certification, registration and regulation of contract and construction management professions to protect public interest and advance construction and contract management education. Once the minister has declared a date for registration, all construction project managers and construction managers will have to register with the council or they will not be allowed to practice. Once the date has been declared, Group Five will

(1)

(1) *Accredited training develops skills that include bricklaying, plastering, painting and carpentry*
(2) *Workers are encouraged to participate in the group's various skills training programmes*
(3) *The Construction Charter requirements are a key measurement for the group*

(2)

(3)

ensure the registration of its professionals who fall under this category.

Employees

Since 1994 the South African government has had an extensive legislation programme to bring the country's employment legislation in line with the International Labour Organisation's recommendations. Among the labour laws in South Africa is the Employment Equity Act, 1998. The purpose of this act is the implementation of affirmative action measures to address the disadvantages in employment experienced by designated groups. Group Five is working towards achieving targets set as outlined in the act, although the Construction Charter requirements are the key measurement for the group. (Refer page 148.)

The Skills Development Act, 1999 is aimed at developing the skills of black people and to encourage workers to participate in learnerships and other training programmes. The regulations of this act also require registration of an employer with the various industry SETAs to ensure that the intention of the act is carried out. Group Five is affiliated to three SETAs:

- Construction SETA
- Services SETA
- Manufacturing Engineering and Related Services SETA

For an extensive report on the group's employment equity and skills development initiatives, refer page 156.

Construction Charter

The signing and approval by the Minister of the Construction Charter in March 2006 was a milestone for the industry. The Construction Charter provides a framework for the construction sector to address broad-based black economic empowerment, enhance capacity and increase the productivity of the sector to meet world best practice. Issued together with the Construction Charter was the Construction Charter scorecard that provides an objective and broad-based set of measurement indicators over a specified period, with the aim of measuring progress based on the elements of BBBEE, namely:

- Ownership
- Control (Management)
- Employment Equity
- Skills Development
- Procurement
- Enterprise Development
- Corporate Social Investment

More information on Group Five's delivery against the Construction Charter scorecard can be found on page 148.

Other

Group Five also has operations in the Middle East, on the rest of the African continent and in Eastern Europe. Some of these operations pose a challenge to the group regarding issues of compliance, as the laws and regulations of those countries differ significantly with those of South Africa.

The group deems it essential to identify the laws and regulations applicable to all its over-border operations to ensure proper implementation and the monitoring of compliance.

The group has established a dedicated international risk management function as part of its risk department, responsible for collating, analysing and distributing relevant information on laws, regulations and in-country practices and to review compliance with such laws and regulations on a regular basis. The reader is referred to page 77 where issues of irregular activities discovered during the year in Angola are discussed.

strategic review

Group Five forms part of the Bergriver Dam joint venture (BRDJV), main contractors for the construction of the dam

The past year has seen substantial changes in the business environment, particularly in the group's core South African market. Positive economic and political developments are generating double-digit industry growth and a sustained upswing is anticipated, returning the South African construction industry to levels of activity not seen since the 70s and early 80s.

STRATEGIC REVIEW

Key points in this report

- Group Five's business vision has been sharpened and certain of the group's super-ordinate goals revised to ensure competitiveness
- The group has adopted a clear philosophy of developing business strategies to meet its chosen financial targets (as opposed to financial targets following the development of chosen business strategies)
- The current or future ability of certain business units and their respective market segments to support these group financial targets has been re-evaluated
  - Group Five sold Vaal and its stake in DPI
  - Roads and Earthworks has been downsized and incorporated into Civil Engineering
  - The group's 50% share in WSSA has been sold
  - Its Saudi Arabian pipe business was sold
  - The Indian toll road concession business was closed and sold and the country exited
  - In addition, the construction businesses have refocused their geographic markets and withdrawn from higher risk areas such as North Africa
- The divestment from these various businesses and markets is to be replaced by investment in new areas of opportunity that have been identified in building materials and housing, infrastructure PPPs and large multi-disciplinary engineering contracts
- The group launched Six Sigma during this year as the main methodology to drive continuous improvement
- The group is also implementing the Group Five Way, a programme to ensure consistent behaviour and increased delivery

THE CHANGING BUSINESS ENVIRONMENT

The past year has seen substantial changes in the business environment, particularly in the group's core South African market. Positive economic and political developments are generating double-digit industry growth and a sustained upswing is anticipated, returning the South African construction industry to levels of activity not seen since the 70s and early 80s.

Increasing oil and mineral commodity prices are driving ever-greater infrastructure investment in Africa and the UAE, markets that are increasing in importance for the group. (Refer page 39.)

Against this changing market, the Exco has analysed the current and expected future business environment for each of the group's markets. Following this detailed review, the business vision has been sharpened and certain of the group's super-ordinate goals revised to ensure competitiveness. Super-ordinate goals are overall measures designed to attain a healthy balanced state for the group.

The ten overarching super-ordinate goals focusing the efforts of the group are:

Goal	Progress
1. One third of revenue earned outside South Africa	Currently 37%
2. Each financial year should open with two thirds secured construction order book for that year	Currently 82.5%
3. Return on shareholder funds of 25%	Achieved 23.9% for the year ended 30 June 2006
4. HEPS growing at least 20% per annum after achieving R1,95 in 2006	HEPS of R1,93 achieved for the year ended 30 June 2006
5. One third of earnings to be from continual stream business, including manufacturing	Currently 11.3%
6. Top three of market share in each segment of the South African market in which the group operates	The group believes this is the case
7. Gearing not to exceed one third of equity	No net gearing at 30 June 2006
8. Cash generated equal to net income	Cash generated exceded net income by R242,8 million for the year ended 30 June 2006
9. Overall operating margin at a minimum of 5%	Operating margin of 4.1% achieved for the year ended 30 June 2006
10. 60% overall rating on Construction Charter scorecard	Currently 50.69% (refer page 148)

BUSINESS AREAS

Group Five's business areas are centred on building, infrastructure and engineering which, from a Group Five perspective, consist of:

- **The building sector**
  - Manufacturing and supply of building materials/products/systems
  - Commercial, industrial, retail and residential building
  - Design and build
- **The infrastructure sector**
  - Property development services
  - Infrastructure development and funding
  - Transport/water/power infrastructure construction
  - PPPs/concessions
  - Toll road operations and maintenance
- **The engineering sector**
  - Multi-disciplinary engineering contracts
    - Power supply
    - Electrical/mechanical/instrumentation construction works
    - EPCM
    - Process plant maintenance

Strong similarities between engineering, production and commercial disciplines exist between the chosen businesses within the three sectors. All three sectors exhibit substantial growth potential for the foreseeable future.

Given the macro-environment for each of these sectors, the group has set certain financial targets going forward. These targets have been broken down into detailed targets by each of the 15 revenue-generating business units. Where an existing business unit is unable to provide a business model capable of achieving these targets, changes to the business portfolio have been planned for.

Under current market conditions, Group Five has adopted a clear philosophy of developing business strategies to meet its chosen financial targets (as opposed to financial targets following the development of chosen business strategies).

SUSTAINABLE BUSINESS MODEL AND PORTFOLIO REVIEW

For Group Five to achieve its triple bottom line objectives and outperform stakeholder expectations, it has to nurture a sustainable business model that generates cash and profit growth. The group's financial targets have been designed to ensure these criteria are met.

The current or future ability of certain business units and their respective market segments to support these group financial targets has been re-evaluated. Following this evaluation, Group Five has sold Vaal, DPI, WSSA and its Saudi Arabian pipe business to buyers better positioned to maximise revenues and returns in these businesses. In addition, the group's Roads and Earthworks business unit, which has faced very depressed market conditions, has been downsized and incorporated into the Civil Engineering (Local and Africa) business unit.

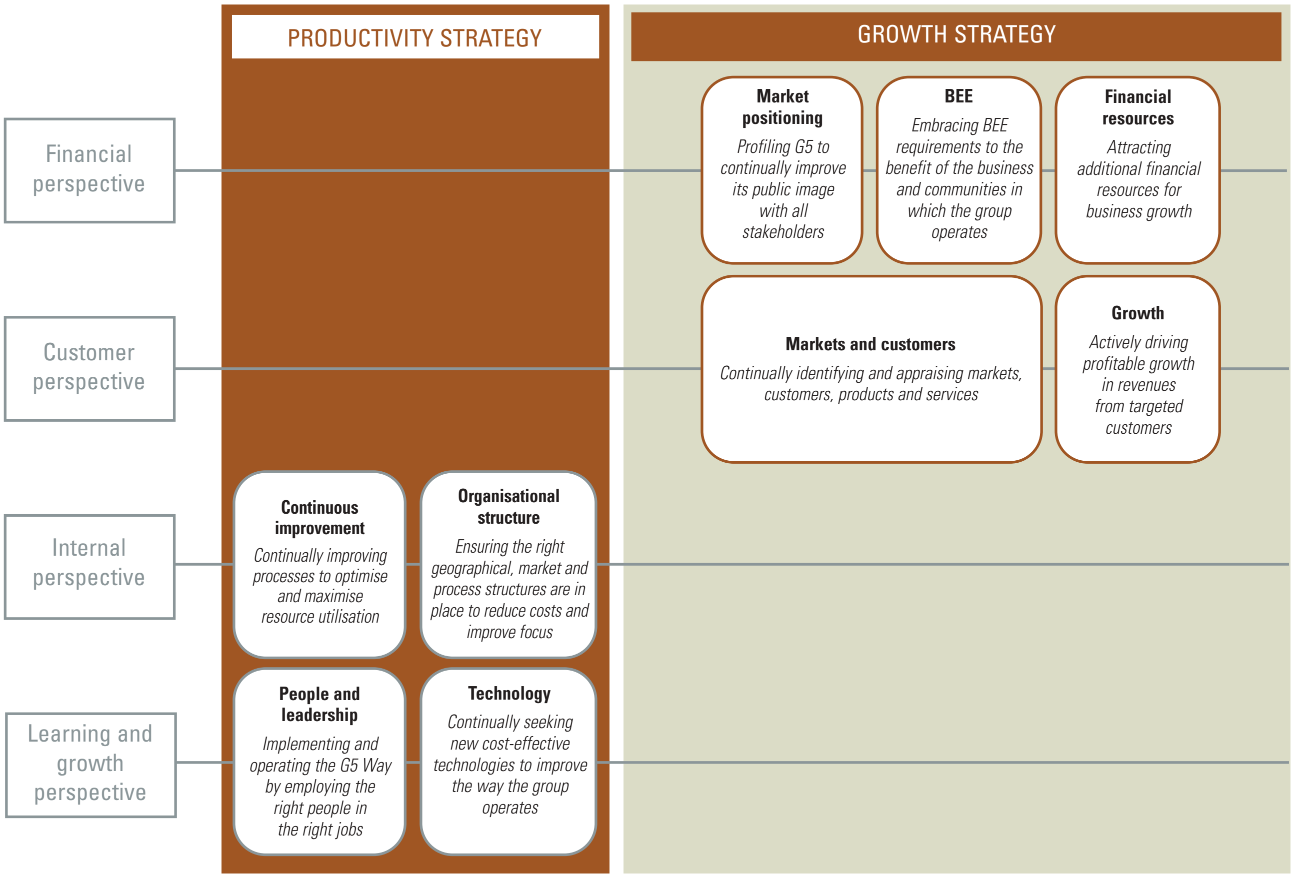
Due to various ongoing logistical, commercial and contractual issues, the group closed down and sold off its Indian toll road concession operations and exited the country during the financial year.

In addition, the construction businesses have refocused their geographic markets and withdrawn from higher risk areas such as North Africa. (Refer page 14.) Market conditions for the group indicate that the current management and engineering skills can achieve higher returns employed elsewhere, particularly in the South African market.

The divestment from these various businesses and markets is therefore to be replaced by investment in new areas of opportunity that have been identified in building materials and housing, infrastructure PPPs and large multi-disciplinary engineering contracts. In particular, there are significant opportunities in the power supply market and a new Power Systems business unit to focus on this area was formed during the financial year. All these opportunities are being prioritised along their potential contribution to the attainment of the financial targets and their fit with the integrated business models for each of the group's business disciplines.

As outlined in last year's annual report, Group Five developed an internal balanced scorecard to categorise, focus and prioritise its strategic efforts. Nine focus areas, covering both productivity and growth considerations, were developed.

STRATEGIC OBJECTIVES AND GROUP FIVE'S BALANCED SCORECARD



Over the past financial year, significant progress and achievements were made in the areas of Market Positioning, BEE, Financial Resources and Organisational Structure. More moderate progress was made with Markets and Customers, Growth, Cost Efficiency and Continuous Improvement, People and Leadership and Technology. Accordingly, most effort in the forthcoming year will go into the latter areas. Progress on the scorecard is summarised on page 148.

INVESTMENTS AND ANNUITY REVENUE STREAMS

To ensure a healthy balance in the business mix and the risk profile of the group's earnings, it pursues longer-term contracts in IDS' operations and maintenance business, continuous production revenues from Manufacturing, and annuity type revenue streams from concessions or property investments (arising from the development activities of PDS and IDS) to counter the short-term cycle of the general construction contracts. Attractive returns are realised from these integrated businesses outside of the pure construction activities. (Refer page 92.)

Balanced scorecard elements – progress to date

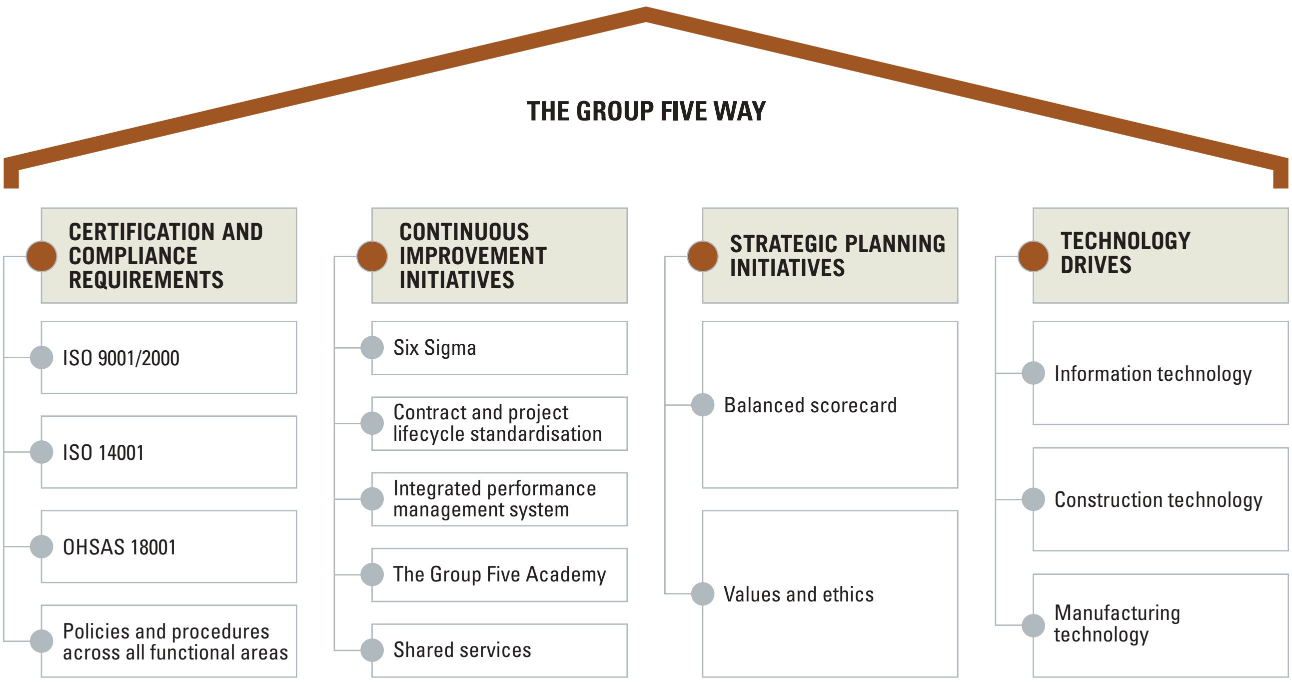
Initiative	Progress
Market positioning	The business has been recofused into Infrastructural Developments, Construction and Manufacturing. (Refer page 10.)
BEE	The group finalised its BEE ownership transaction during September 2005 and is now 26.1% directly black owned. (Refer page 148 for the full report regarding the group's progress with the Construction Charter.)
Financial resources	Available guarantees from financial institutions has been increased to R3,4 billion from R2,4 billion; cash generated of R391 million was achieved in the year ended 30 June 2006
Organisational structure	The business has been refocused into a more streamlined discipline, cluster and business unit structure to align with the strategy and the markets. (Refer page 12.)
Markets and customers	The markets have been refocused as indicated in page 35 and the goal is to achieve one-third of group revenues outside of South Africa going forward (currently 37%)
Growth	Group Five achieved its sixth consecutive period of earnings growth for F2006 with headline earnings growing by 34.7% from R1,43 to R1,93
Continuous improvement	Refer page 60 for a discussion regarding the Group Five Way, which includes initiatives around continuous improvement
People	The group is integrating its different training programmes through the creation of an in-house Group Five Academy. The Group Five Academy has the dual objective of driving management development and inculcating the Group Five Way (the group's way of consistently carrying out all key aspects of the business process) with managerial, administrative and operational staff. Through the Group Five Academy, the current extensive expenditure on training and development should become increasingly productive. A number of additional strategies are also in place to address the skills shortage facing the industry. (Refer page 131.)
Technology	The experience gained in the internationally competitive Dubai construction market can be leveraged elsewhere, particularly in South Africa. Significant technology opportunities also still exist within the Everite business. One of the main production lines was redesigned and renewed this year and further investment in upgraded production equipment is planned. (Refer page 101.)

THE GROUP FIVE WAY

To remain competitive and to meet Group Five's financial targets, the group is continuously evaluating the way in which it operates. It focused on bedding down the different initiatives towards a culture of continuous improvement during the year.

The group is implementing a programme to ensure consistency in all key aspects of the business process. The Group Five Way is aimed at aligning behaviour and operational intent within the group which is of critical importance in building customer relationships and delivering on market expectations. The roll out in the group is in its infancy and will be communicated and driven through the organisation next year.

Outlined below are the main pillars of the Group Five Way and detailed information on each of the elements.



Certification and compliance requirements

- ISO 9001/2000
- ISO 14001
- OHSAS 18001

Group Five measures its operations through industry certification. The group is committed to a policy of quality assurance that complies with ISO 9001/2000, occupational health and safety that complies with OHSAS 18001 specifications and environmental requirements particular to ISO 14001. (Refer page 167.)

Policies and procedures

Significant effort has been given to all functions of the group's business, including finance, IT, HR, SHEQ, commercial and operational to implement world-class, best practice standardised policies and procedures at all business units to ensure processes are aligned, compliant and consistent. These are available through the group's intranet.

Continuous improvement initiatives

A philosophy of continuous improvement is the foundation of the Group Five strategy, aimed at creating stakeholder value through the realisation of quality processes.

Commitment to quality on all sites is in line with ISO requirements

In the following pages the main initiatives of the continuous improvement philosophy are outlined.

Six Sigma

A number of methodologies have been implemented in the past to achieve the continuous improvement philosophy, which has delivered value to the organisation. However, following a review of these methodologies against the successes of leading Six Sigma organisations globally, where significant value has been created, the Group Five Exco launched Six Sigma as the main methodology and spearhead to advance its continuous improvement philosophy.

Research indicates that Six Sigma organisations that have successfully differentiated themselves from their peers have achieved this through using Six Sigma as a management philosophy that connects all aspects of the organisation, rather than just using it as a methodology or toolset. This is in line with Group Five's strategic intent with the launch of Six Sigma.

The group has adopted the Six Sigma philosophy of continuous improvement

What is Six Sigma?

Six Sigma is a highly-disciplined process that helps to develop and deliver quality solutions against internal processes and customer requirements.

Sigma is a statistical term that measures how far a given process deviates from perfection. Statistically at a Six Sigma level, a process would only incur 3,4 defects per million occurrences. The central idea behind Six Sigma is therefore that if you can measure how many "defects" you have in a process, you can systematically eliminate them to get as close to "zero defects" as possible. Within the Six Sigma methodology, a variety of statistical and analytical tools are used to accurately identify the defects, causes of defects and solution and improvement strategies. Put simply, Six Sigma is a highly-disciplined approach to decision-making that helps people focus on consistently improving processes to make them as near perfect as possible.

Six Sigma at Group Five

Six Sigma was officially launched at Group Five in November 2005. The CFO is leading the project to ensure that the methodology of business improvement becomes embedded in the group strategy.

A number of projects have commenced within the group, with initial results already flowing through.

The two projects currently rolling out are:

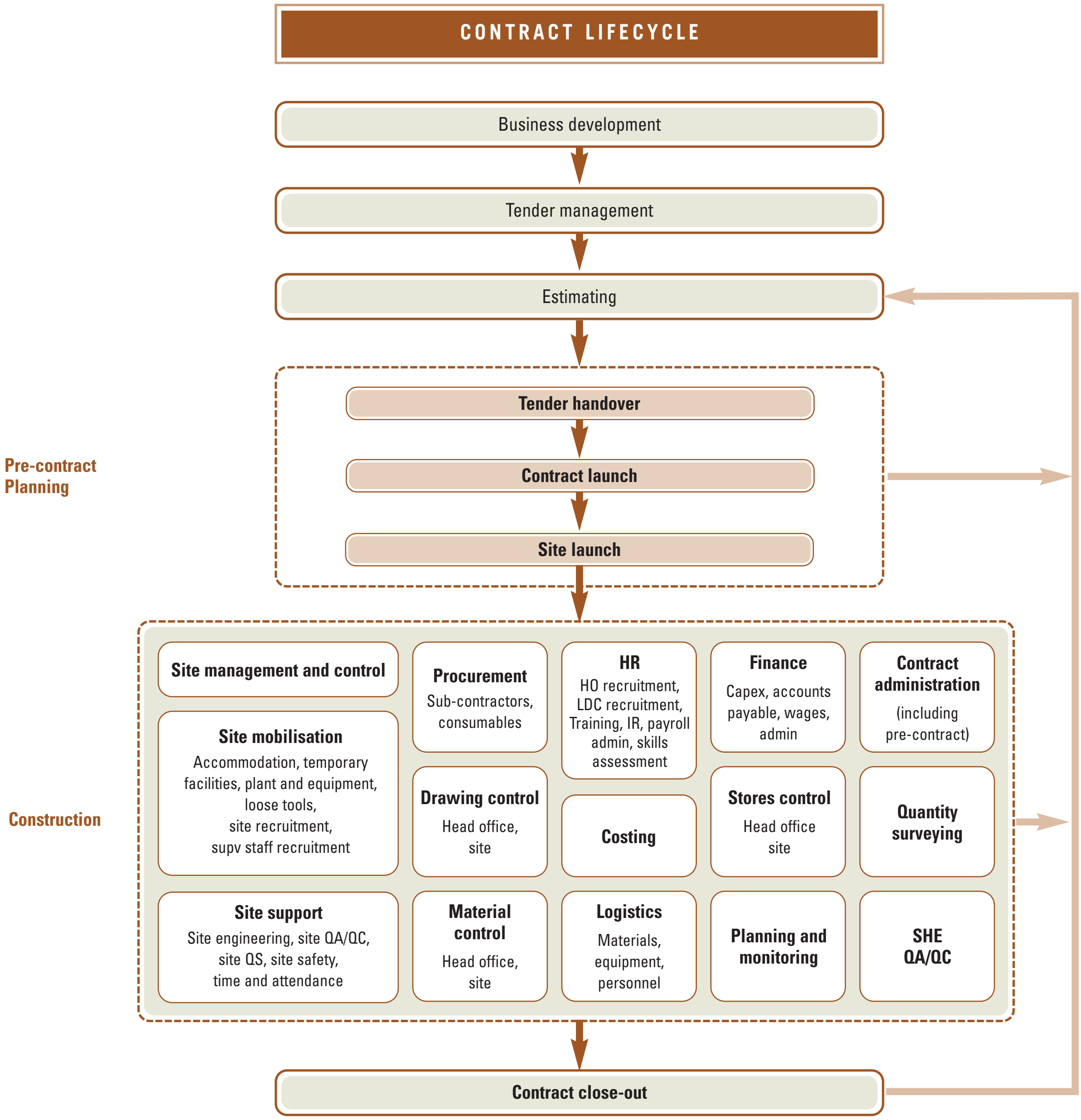
- Improving GRV (goods received voucher) processing cycle time, which will speed up creditor payments and utilise settlement discounts
- Reducing the requisition-to-order cycle time to improve the relationship between procurement and the internal customer

With a lot of room for improvement in both these areas, significant savings can be gained, especially in the area of maximising settlement discounts.

The training programme for leaders of Six Sigma has also commenced and the group is confident that clear results on the first two projects will be seen during F2007.

Contract and project lifecycle standardisation

The group has also evaluated how it approaches its contracts. It has therefore implemented a contract lifecycle system with a systematic approach to contract implementation to ensure individual operational functions and service disciplines deliver the correct information on time and in the right place. For each phase of the contract lifecycle, standardised policies and procedures have been formulated for use across all construction business units globally. The customer is involved in many of the stages of the contract lifecycle to ensure delivery is to expectation.



The concept has also been standardised for projects undertaken by PDS and IDS, whereby the project lifecycle consisting of development, financing, construction, operations and maintenance, rehabilitation and handover or sale is controlled through standardised processes supported by policies and procedures.

Integrated performance management system

In October 2004 the group identified the need to revamp and upgrade the existing in-house staff performance management system. In this context, specific consultants were identified as being on the cutting-edge of the market in terms of implementing a system designed to transform performance culture. While offering different performance management tools, their prime offering is the "Integrated Performance Management System" or IPMS, which seeks to integrate employees' performance and the required performance measures to the business strategy.

This process should not be confused with performance appraisal (which is the end result). It is rather an integrated methodology aimed at developing an individual and specific performance job profile with the emphasis on facilitating the achievement of organisational efficiencies and performance and strategic delivery.

In consultation with Group Five's Exco, a pilot programme was launched at Building. The process was completed in November 2005. This pilot process involved 60 employees going through the full IPMS programme and one specific full departmental analysis.

The individual IPMS programme takes the employee through a detailed analysis of the purpose of his/her position, the intended/required value-add to the organisation and the various interdependencies and constraints which exist within the system. It culminates in a performance charter designed to ensure delivery. The benefit of this process is that the employee is both the author and co-owner of his/her performance charter and as such, a high level of commitment is attained.

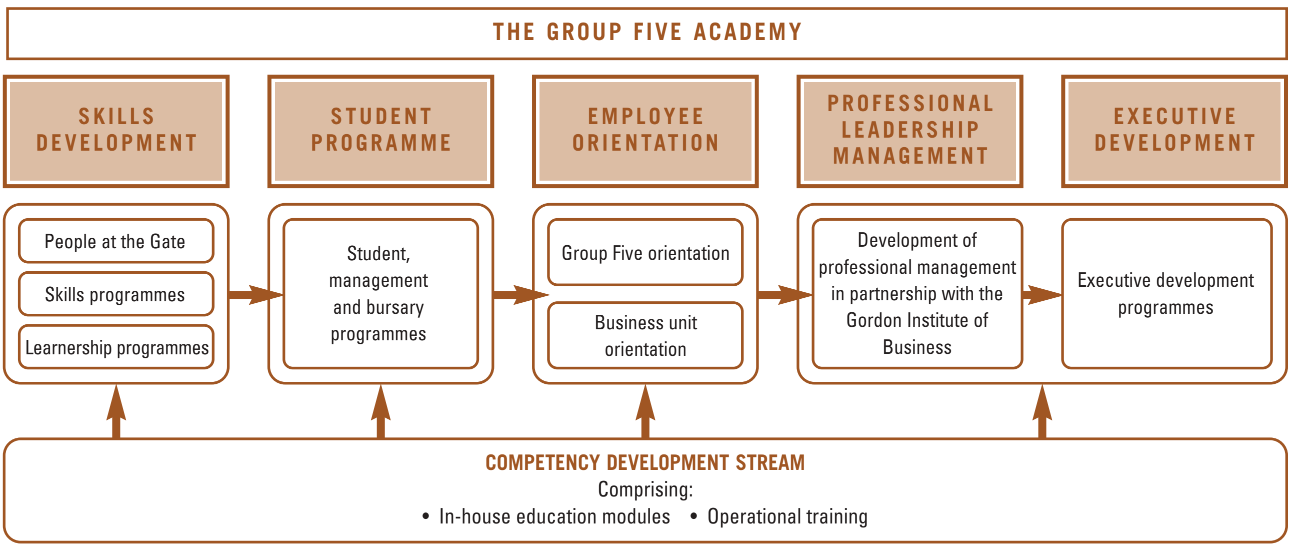
In terms of the departmental process, the whole quantity surveying function was included. The aim of this process was to increase the efficiency of the quantity surveying commercial function and associated systems to free up quantity surveyors to spend time in revenue-generating activity.

In light of the success of the pilot studies, Building has commissioned the consultants to continue both elements of this programme and to extend the scope to include all departments and employees down to engineer/senior foreman level (Peromnes grade 9).

The intention is to start rolling this initiative out in the group in the latter half of F2007.

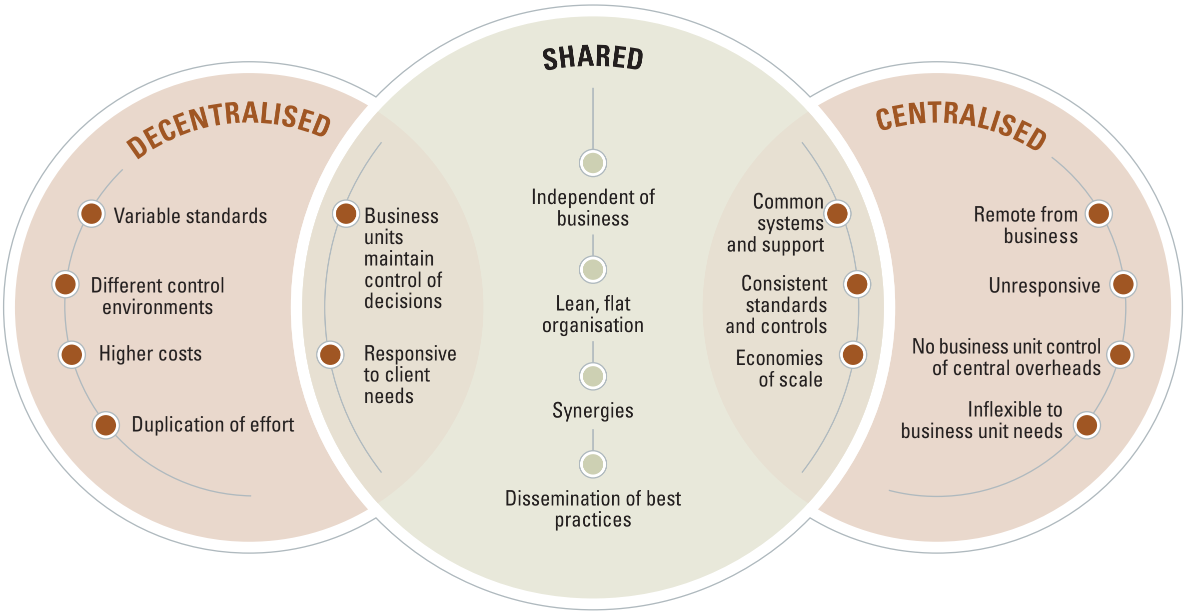
The Group Five Academy

Group Five's response to the critical skills shortage in the industry is centred on training, which has led to the formation of the Group Five Academy this year. The Academy will focus on developing the core competencies of Group Five's people, focusing on professionalism, discipline and consistency in support of doing things The Group Five Way. The Academy will be the umbrella body for training in the group and will cover the entire work chain. In theory, an employee could enter the programme at the lowest, unskilled level and progress all the way through to the executive development programme. Included below is a diagrammatical representation of the Group Five Academy. Refer page 156 for further information.



SHARED SERVICES

Shared services combine the benefits of both centralised and decentralised operations



Shared services

A shared services methodology is being implemented across the group to cut down process cycle times and improve efficiencies. Shared services combine the benefits of both centralised and decentralised operations.

To date, this has been implemented to various degrees for accounts payable processing and payment (South Africa only); HR, payroll and administration (global); plant and equipment (South Africa only); procurement and logistics (South Africa only). In future, this will be maximised and rolled out globally as much as possible.

Strategic planning initiatives

Balanced scorecard

Group Five developed an internal balanced scorecard to categorise, focus and prioritise its strategic efforts. Nine focus areas, covering both productivity and growth considerations, were developed, each of which has measurables to track the group's progress. (Refer page 58.)

Values and ethics

The group believes that acting ethically in what it does is one of the main pillars of its strategy. All possible steps are undertaken to ensure that best governance policies are enforced in all Group Five activities, both locally and outside its borders. Group Five implemented a formal Code of Ethics throughout the group in 2004 and firmly enforces a policy of zero tolerance to corruption. (Refer page 75.)

Technology drives

IT

During 2001 a full review was conducted around the group's business information processes to ensure their alignment with the growth strategy. This review, which was conducted by both internal and external resources, revealed that:

- A multiplicity of stand-alone systems existed
- Many of the existing systems were outdated and ineffective
- Integration of systems was cumbersome
- Reporting was not standardised
- An excessive duplication of work existed (multiple entry)
- Too much manual transfer existed

- Key information resided in only certain people's heads
- Decision-making was slow
- Information was unreliable

As a result, Project reVAMP was launched throughout the group to address these issues. A number of key decisions were made:

- A standardised integrated IT software solution was chosen (Oracle suite of JD Edwards and PeopleSoft), as depicted below, which was supported by the technology of Hewlett Packard, Microsoft and Cisco (specialised software such as the Kronos time and attendance solution and the CCS estimating tool was also chosen as add-ons). This has been fully implemented in all the business clusters and units and contract sites globally
- A strive for 100% connectivity globally was put in place, involving the use of dial-ups, ISDN, ADSL, 3G and satellite technology. To date, over 90% connectivity has been achieved globally between head office and sites
- The concept of a shared services environment for as many suitable functions as possible was pursued. (Refer page 65.)

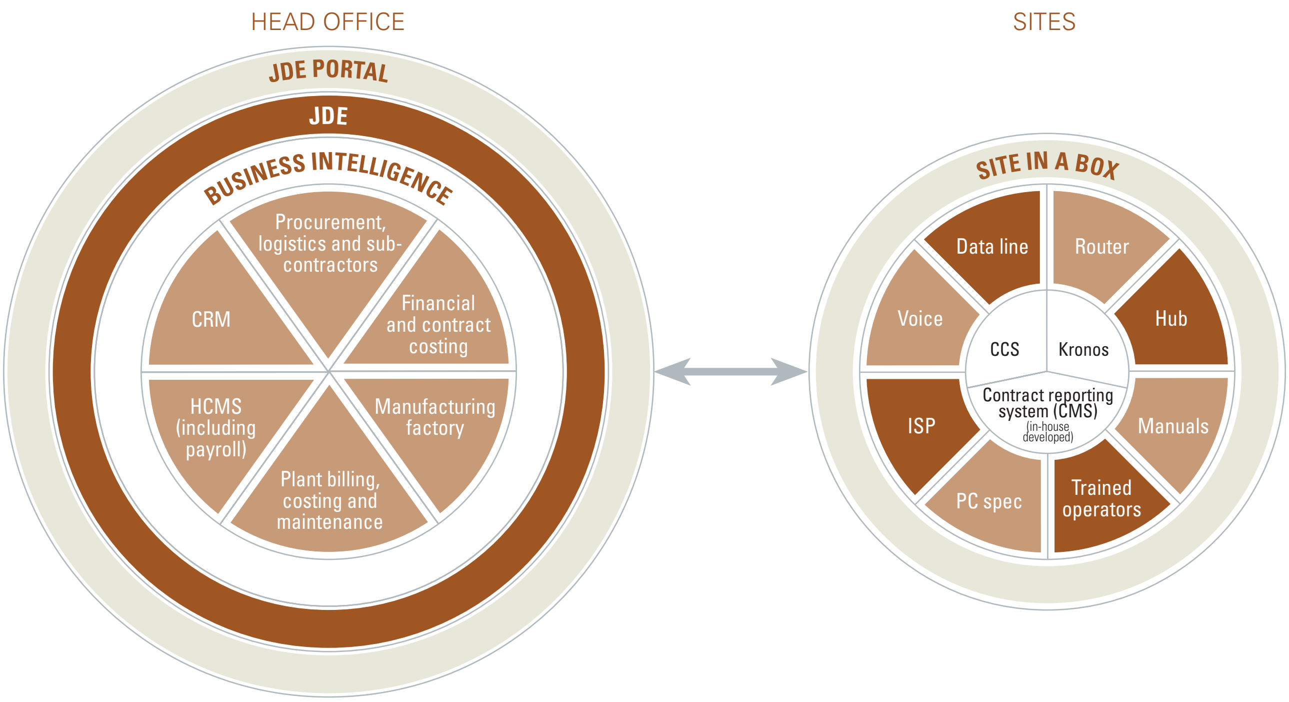
Construction technology

The group has identified a need to improve the use of world-class technologies to increase the quality and efficiencies of construction practices. Techniques being used in Dubai on construction contracts will be filtered through to the rest of the construction business during F2007 and a formalised construction technology committee will be formed, which will be headed up by the CEO.

Manufacturing technology

Significant initiatives were implemented at Everite a number of years ago to move from asbestos to non-asbestos fibre-cement technology. This process is constantly being refined through visits to international factories and Everite's pioneering work in this regard has in many instances been a world first. Requests for technological assistance from global players are often received.

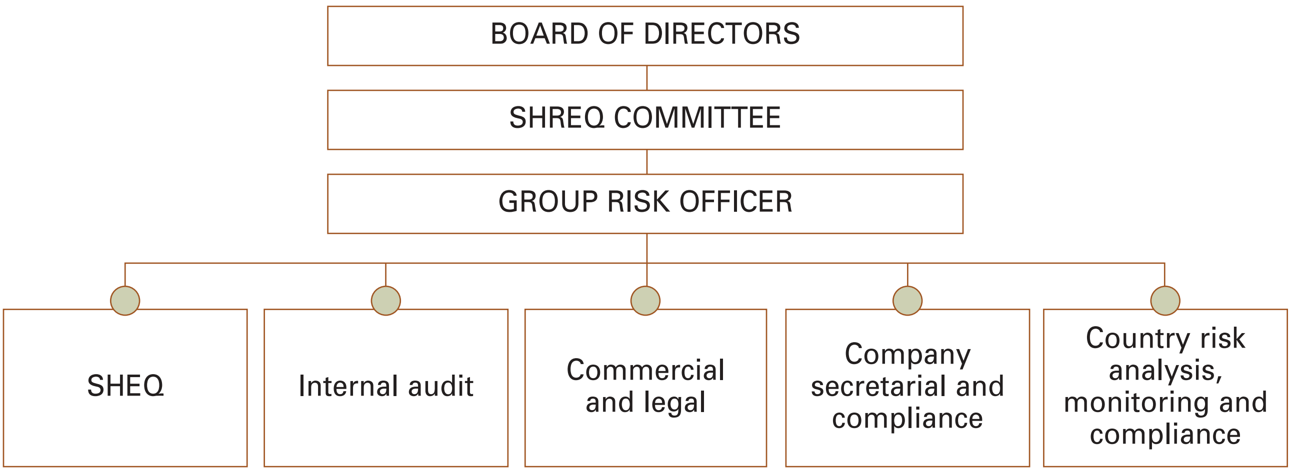
AN INTEGRATED SYSTEMS APPROACH



RISK MANAGEMENT

Key points in this report

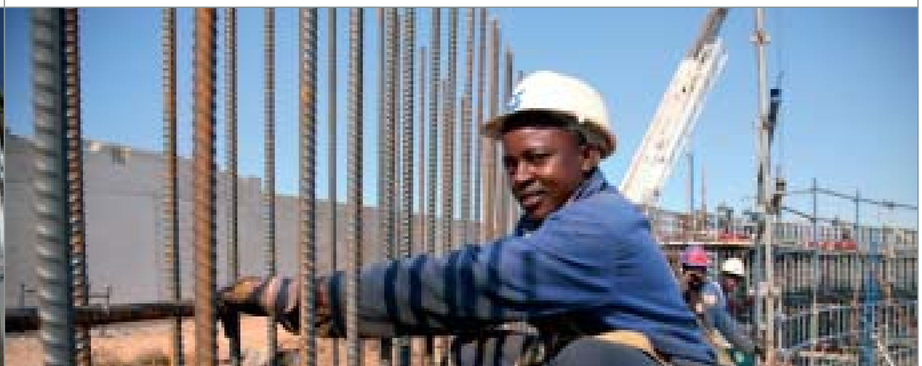
- The group's approach towards risk remains focused on the management of risk rather than total elimination, and as such the group pursues opportunities involving some degree of risk
- The increasing pace of change, customer demands and market globalisation have put risk management high on the agenda of Group Five. Effective risk management is considered critical to the sustainability of the group in its current environment
- The responsibilities of the group risk officer were expanded during the financial year to ensure a more comprehensive approach to the group's risk management function. The new structure sees the risk officer taking responsibility not only for the immediate risk functions, but also for SHEQ, legal and commercial, country risk compliance, company secretarial and compliance, and internal audit
- It has become apparent that the availability of appropriate skills within the South African construction sector falls far short of that required to sustain the infrastructure spend. The attraction, development and retention of skills have therefore become key strategic risks facing the group
- The country risk management function forms part of the risk department to manage risks inherent to over-border contracts throughout the contract lifecycle
- With more than 80% of group revenue derived from high-risk and relatively low-margin construction contracts, the group's primary risk management remains focused on these contracts
  - Some of the key initiatives introduced to the group during the year under review include:
    - Risk registers
    - Project risk filter documents
    - Construction contract lifecycle standardisation
    - Contract dashboards



(1)

(1) *Close co-operation between on-site management and staff reduces confusion and costly errors* **(2)** *Secure scaffolding is erected by fully trained teams* **(3)** *Safety officers enforce and monitor strict regulations on site*

(2)



(3)

PHILOSOPHY

The group's approach towards risk remains focused on the management of risk rather than total elimination, and as such the group pursues opportunities involving some degree of risk. The group's risk philosophy gives full and due consideration to the balance between risk and reward to ensure optimisation of the rewards gained from each business unit's activities.

The increasing pace of change, customer demands and market globalisation have put risk management high on the agenda of Group Five. Effective risk management is considered critical to the sustainability of the group in its current environment.

STRUCTURE

During the year under review, the responsibilities of the group risk officer were expanded to ensure a more comprehensive approach to the group's risk management function. The new structure sees the risk officer taking responsibility not only for the immediate risk functions, but also for SHEQ, legal and commercial, country risk compliance, company secretarial and compliance, and internal audit. The above restructuring is in line with the holistic approach to risk adopted by the board.

Although the head of internal audit reports to the group risk officer on day-to-day issues, the position is still directly accountable to the chairman of the audit committee of the board. The new structure with respect to the internal audit function is in line with the United States-driven Commission of Sponsoring Organisations of the Treadway Commission (COSO), which sees internal audit as a robust tool available to the risk function and in turn facilitates internal audit's risk-based approach.

RISK MANAGEMENT

The group's approach to risk remains holistic, covering the four key areas of strategic, operational, reporting and compliance. The overall drive during this year has been to ensure risk management is objective and goal-driven in all these areas.

Outside of the expanded responsibilities of the group risk officer, the structure has remained unchanged from previous years. The board remains ultimately accountable for risk within the group and provides high-level governance guidance and insight. The board SHREQ committee, and in particular the group risk officer, acts as the conduit between the board and management and, together with the board audit committee, reports to the board on the adequacy of the systems and controls implemented by management.

Notwithstanding the above, immediate responsibility for risk management within the group resides with management and staff, who are expected to manage risk in their respective spheres of responsibility.

→ Country risk

South Africa

The intended significant increase in South African public sector spending on infrastructure, coupled with the preparations for the 2010 Soccer World Cup and the ongoing private sector spend, has created both risk and opportunity.

In the group's most recent strategic reviews and three-year plans, it has become apparent that the availability of appropriate skills within the South African construction sector falls far short of that required to sustain the infrastructure spend. To this end, the attraction, development and retention of skills have become key strategic risks facing the group. Initiatives to deal with this area are being driven at all levels and more detail can be found in the HR Report on page 131.

The concomitant opportunity that has arisen out of the above scenario arises from the simple economics of supply and demand. There has been an upswing in the margins that the group's business units are able to demand on contracts awarded in the past six months. This trend will inevitably attract new players to the South African industry and the group is particularly conscious of the influx of Chinese players.

In the Manufacturing discipline, the strong Rand continues to put pressure on the pricing points of the group's products as imports remain an attractive alternative to local production.

Other countries

The group also operates in Africa, the UAE and Europe. Africa is known as a high-risk territory and, as such, the group continues to focus on country risk management on the continent.

One of the main purposes of the international risk management function forming part of the risk department is to manage risks inherent to over-border operations. The risk department oversees the managing of over-border risks in each of the group's corporate business services, namely:

- Accounting
- HR
- IT
- Legal
- Supply chain (primarily logistics)
- Statutory
- Taxation

The cooperation of these functions is vital to effectively manage the risks in each country. The approach to be adopted to achieve this objective revolves around two focus areas:

- Collating and making available accurate, up-to-date information regarding doing business in relevant countries to identify compliance risk areas and to enable the group's corporate business services and operational business units to make informed decisions and to ensure that all relevant parties are aware of compliance requirements
- Regular review of implementation and compliance

It is the operational business units' responsibility to manage the day-to-day operational risks in each country in which it operates.

A country risk section has been established on the group intranet and all relevant information and documentation is currently being included to be easily accessible by group management and staff.

Once the intranet site is fully populated, information sessions and training will be provided to relevant staff members.

Operational risk

With more than 80% of group revenue derived from high-risk and relatively low-margin construction contracts carried out by the Construction business units, the group's primary risk management remains focused on these business units and contracts.

Below are summaries of some of the key construction-related initiatives introduced to the group during the year under review.

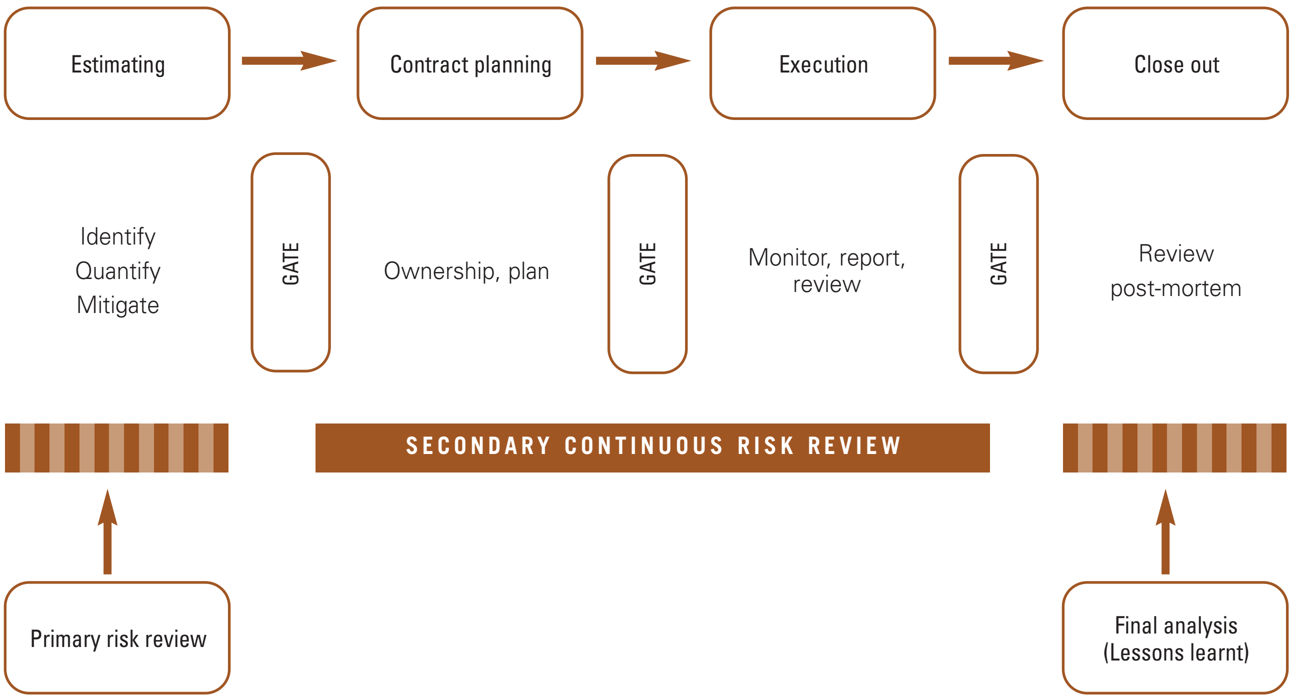
Risk registers

In line with corporate governance and good business practice, a set of risk registers is being collated at business unit level to ensure management is constantly aware of all risks facing the group. These risk registers are divided into three broad categories: strategic, operational, and functional. Once identified, risks are measured quantitatively, using a pricing method that allows for a more objective assessment. Controls are then determined and a residual risk value is determined. This quantitative approach enhances management's ability to determine the extent of control required and its cost/benefit ratio. It also assists in the monitoring and review process that forms part of the register. Once completed, these risk registers will be reviewed on an annual basis.

Construction contract risk filter document

Following the quantitative approach adopted in the risk registers, the construction contract risk filter documents have been reviewed and amended to follow suit. All construction contracts are put through a risk filter in which risks are identified and priced. Depending on the strategy adopted by a particular

Construction contract risk process



business unit, these risks can then be objectively assessed and dealt with during the estimating and/or planning and/or execution phase.

The above diagram gives a broad outline of the risk process followed in construction contracts.

- **Construction contract lifecycle standardisation**

  To facilitate the risk process, business units have been tasked with revisiting all procedures used during any contract undertaken. The logic behind this exercise is two-fold. Firstly, to standardise the numerous procedures and processes followed in a construction contract to ensure a more consistent process and outcome in all contracts undertaken by a particular business unit. Secondly, once consistency has been achieved, these procedures and processes can be more readily measured, which in turn allows for a more objective assessment. Core procedures across business units can then be benchmarked against best practice.

  All business units are currently engaged in, or have already completed, this initiative. Refer page 63 for a detailed analysis of the contract lifecycle.

- **Contract dashboards**

  During the year it was agreed that the manner in which business units reported on contracts was varied and, in some cases, ineffective. To this end, a standard monthly contract report/dashboard has been devised that objectively captures the critical information required to enable management to timeously intervene should a contract show signs of distress. The short interval reporting will allow management to act earlier than it has in the past and in so doing prevent or avoid unnecessary losses.

For all non-Construction business units, risk registers have also been compiled and a project lifecycle standardisation process, as detailed on page 63, implemented at PDS and IDS.

INSURANCE PROTECTION

Considering the inherent risks facing a large multi-disciplinary organisation such as Group Five, management has always deemed it prudent to transfer a certain amount of risk to reputable insurance organisations. Set out below are the classes of insurance taken out by Group Five and the group's performance within each class.

Asset all risks

Type of cover

Group Five has all risk insurance for property, machinery, stock in trade, as well as business interruption/loss of profit insurance for Manufacturing business units.

Year of insurance	Number of claims	Net claim value as a percentage of premium paid
F2004	39	0
F2005	41	340
F2006	18	42
Total	98	126

The high loss ratio suffered in F2005 was as a result of an explosion at Sasol, which affected the supply of product to DPI which was beyond management's control. Everite suffered business interruption during F2006 when a contractor accidently severed the factory's power supply. With the disposal of certain Manufacturing business units, an improvement in the claims experience is expected, as there is less exposure.

The Construction business units have improved their claims experience, partly as a result of increasing the deductible and thereby removing the majority of petty repetitive claims.

Plant all risks

Type of cover

All risk cover for plant and equipment (excluding vehicles classified as motor) owned or hired by Group Five.

Year of insurance	Number of claims	Net claim value as a percentage of premium paid
F2004	29	75
F2005	21	2
F2006	13	212
Total	63	95

Although the number of claims has reduced, the value of claims has increased significantly. The increase in quantum is as a result of a number of crane hire-related claims. Two major claims in F2006 related to operator error and a fire, which were both beyond management's control.

Motor

Type of cover

Own damage and third party liability insurance for all vehicles owned, leased or hired by Group Five. Own damage excludes third party claims.

Year of insurance	Number of claims	Net claim value as a percentage of premium paid
F2004	154	29
F2005	119	74
F2006	71	18
Total	344	40

There has been a significant improvement in this particular class as a result of the following:

- With the reduction in road-related contracts, there has been a reduction in high-quantum claims for earth moving vehicles, such as atrosses
- In F2004 there were some high-quantum claims for vehicles operating in Angola. This operation has been downscaled and no further claims are expected
- With the consolidation of all plant and equipment into one business unit during F2005, controls were revised and tightened, resulting in reduced claims

Group personal accident

Type of cover

This insurance covers employees and is for temporary disability, permanent disability and death from accidental means. It excludes ill health.

It is difficult to establish a trend in a class of insurance such as this. However, as Africa is a territory with such a high incidence of motor vehicle accidents and violent crime, the number of claims reported may increase. Management are currently investigating alternative methods/options of insuring this risk.

Year of insurance	Number of claims	Net claim value as a percentage of premium paid
F2004	15	0
F2005	13	554
F2006	12	1 150
Total	40	617

Fidelity guarantee

Type of cover

Provides insurance to the group for the theft of money or collusion resulting from fraud by employees. No claims occurred for the periods F2004 and F2005. In F2006 two claims were reported and a third investigated.

Due to the increase in claims in F2006, existing financial policies and procedures are being reviewed and tightened.

(1) *Own damage and third party liability insurance covers all vehicles owned, leased or hired by Group Five* **(2)** *Asset all risk insurance covers the Manufacturing business units*

(1)

(2)

Professional indemnity

Type of cover

Provides insurance for the errors and omissions in design and detailing by a suitably qualified professional.

Claim	Area
KwaZulu-Natal	Design error Pre-stressed beams
Engineering Projects	Detailing error
Building	Diaphragm wall
Building	Shifting of piling
Civils	Collapsed wall

All of the above claims were reported in the F2004 period of insurance. F2005 and F2006 suffered no claims.

With skills shortages within both South Africa and Africa, the group has noticed that professional indemnity claims in the industry are on the increase and this will probably result in a shrinkage of capacity and cover provided. In response to this, the group has adopted a policy that attempts to shift as much design/supervision risk to the client. However, where this is not possible, improved controls and processes are being implemented to manage the risk.

Summary

In the opinion of the group's insurance brokers, the above claims and trends compare favourably to industry norms and do not pose any material risk to the group.

SHEQ

The group continues to strive towards best practice in the area of SHEQ. The group's commitment to this is demonstrated by its decision to have an Exco group risk officer directly accountable for these functions.

A full report on SHEQ can be found on page 167.

INTERNAL AUDIT

Internal audit reports directly to the Group Five board audit committee. The audit committee, together with the SHREQ committee, strives to ensure that:

- The risk strategy reflects the views of the board
- The risk structure is appropriate to support the strategy
- Adequate controls exist in critical risk areas
- Risk registers are maintained, graded and reviewed from time to time

The board of directors is responsible for the group's systems of financial and operational internal control. To fulfil this responsibility, the executive directors ensure that management maintains accounting records and has developed and continues to maintain systems of internal control that are appropriate to the achievement of Group Five's business strategies. The systems of internal control are designed to provide reasonable, and not absolute, assurance as to the:

- Integrity and reliability of the financial and operational information that is used internally and for public reporting
- Safeguarding, verification and maintenance of accountability of its assets
- Detection and minimisation of fraud, potential liability, loss and material misstatement
- Compliance with applicable laws, regulations and policies
- Effectiveness and efficiency of operations

The systems of internal control are founded on the basis that directors and employees are required to maintain the highest ethical standards, as outlined in the group's Code of Ethics, thereby ensuring that business practices are conducted in a manner which, in all reasonable circumstances, is beyond reproach.

CODE OF ETHICS

The Group Five Code of Ethics

Group Five's Code of Ethics relates to our business practices as well as expected conduct towards:

- Our customers
- Our employees
- Our business partners
- Our suppliers
- Our communities
- Our environment

General business principles

- We will generate business through application of knowledge of our markets, timeous delivery of quality products and services and by building sound client relationships
- We will at all times act in good faith in the best interests of the group as a whole. This applies to both external and internal business dealings and working relationships
- We will operate within the laws of South Africa, codes of industry practice and standards laid down by statutory bodies
- We will operate within the laws and custom of any other country where we do business
- We will not resort to bribery in order to further our business interests
- We will keep accurate and reliable records, which fairly reflect all business transactions in keeping with South African GAAP
- No employee of the group is to pursue any private business interests that will conflict with those of Group Five either by way of competition or diverting attention from the business of the group
- We will declare any conflicts of interest that may arise, including employment of family members and any business with related parties
- We will not divulge confidential information about our business without prior approval
- We will act at all times with disregard for any personal ulterior or improper motive such as personal gain

Our customers

- We will be professional in all our business dealings in order to maximise our reputation as the preferred supplier of construction goods and services
- We will meet and exceed our agreed-upon customer requirements
- We will strive to form "hassle free" business relationships with our customers

Our employees

- We will adhere to the group's policies and procedures and apply them fairly throughout the organisation
- We will continue to pursue the group's equity objectives
- All employees will operate within an agreed "framework of authority and operating guidelines"
- We will ensure that our working practices conform to strict SHEQ standards
- We will invest in the development of our employees and performance will be rewarded
- We will act in a professional manner with each other and respect one another's religious, ethnic and cultural backgrounds

Our business partners

- We will maintain professional working relationships with our business partners at the same time as fostering a culture of teamwork
- We will ensure that all our business partners fully understand our performance standards and requirements
- In keeping with international practice, agents may be appointed by the group in order to assist in country establishment and work procurement

All agents, partners and commercial agreements pertaining thereto must be approved by group Exco.

Our suppliers

- We will maintain professional working relationships with all our suppliers

All employees operate within an agreed framework of authority and operating guidelines

- We will ensure that our suppliers understand our performance standards and requirements
- We will not divulge confidential information to our suppliers about our business strategies

Our communities

- We will consult with the communities where we operate on matters that may affect them
- We will respect the values, culture and beliefs of the communities in which we operate

Our environment

- We will respect and care for all life (people, animals and plants)
- We will educate all staff on environmental issues
- We will protect soils, water and air from damage through our operations as best we can. We will rehabilitate what we can
- We will control emissions from our operations and will manage waste disposal under strict constraints

The application of our Code of Ethics

In a work environment where the achievement of an organisation's goals is dependent on the combined efforts of all its people, it is imperative that all employees abide by a code of behaviour which is supportive of the organisation's objectives. It is therefore important that we uphold our Code of Ethics through proper behaviour in the workplace and that we apply ourselves diligently to our jobs.

In asking ourselves if our behaviour is ethical we should answer the following questions:

- Is it possibly illegal what I am doing?
- Is it dishonest what I am doing?
- Does what I am doing conflict with our Code of Ethics?
- Could other people in our organisation view what I am doing negatively and take offence?

If the answer to any of the above questions is "Yes" then you should not proceed with your actions. Please discuss with your manager what you want to do in order to see if there is an ethical solution to your problem.

Activities conducted by internal audit include reviewing documented policies and procedures and assessing adherence thereto, as well as asessing budgeting and forecasting disciplines when compared to actual results. Advice and facilitation to business unit management is also provided on risk management to enable management to identify and manage the key risks to the business. In addition, where possible, management has utilised advanced computer hardware and software technologies to improve the control environment.

The effectiveness of the systems of internal control in operations is monitored continually through reviews and reports from the internal auditors. Group Five's internal audit operates in terms of an audit committee approved charter to provide management with an independent, objective consulting and assurance service that reviews matters relating to control, risk management, corporate governance and operational efficiency.

Although group internal audit reports directly to the board audit committee, it reports to the group risk officer on day-to-day matters, which does not impair the function's independence or objectivity. There is regular two-way communication between the CEO, CFO and the head of group internal audit. During the financial year, the internal audit function has focused on auditing all the business units, as well as a material sample of the contract sites. All support functions within the business units are subject to internal audits.

These audits are risk based and include both business risks and process risks within the following process areas:

- Financial
- Contract and commercial
- HR
- IT

IRREGULAR ACTIVITIES

In the period under review, in line with its zero tolerance towards irregular business activities, the group senior executive management took action regarding potential irregularities on a housing project, the Nova Vida Project in Luanda, Angola. This project started in 2001 and finished in 2005.

Group Five has been involved in 15 contracts in Angola since 2001. The Nova Vida Project, Group Five's first in Angola, was entered into with the Angolan government in 2001. The project was entered into before group structures, risk management practices and management controls were revised and tightened in 2003.

Risk management is practiced to enable management to identify and manage the key risks to the business.

Reports were received by management of Group Five from a variety of reliable sources, including the Angolan authorities, expressing concern around the possible abuse of customs, tax, immigration and licensing exemptions and other irregularities or potential illegal activities by Group Five personnel.

Investigations by senior executive management indicated that at least some basis appeared to exist for reasonable suspicion that irregular activities had taken place. Although no charges have been laid and no firm evidence has yet been found to enable Group Five to take further action against parties suspected to be involved, the group felt that under the Prevention and Combating of Corrupt Activities Act of South Africa, it had to report suspected illegal action. In line with Group Five's formal policy to report any potential illegal activity to the SA Police Service (SAPS) and its zero tolerance towards such activity, management therefore reported its suspicions. Group Five is continuing its internal investigations.

As at the reporting date, the Angola operations have been normalised and legalised and all outstanding duties and taxes settled.

All possible steps have been undertaken to ensure that governance policies are enforced in all Group Five activities, both locally and outside its borders. The group's formal Code of Ethics was rolled out in the group in 2004 and Group Five will continue to firmly enforce its zero tolerance policy towards irregular business practices.

Group internal audit conducts independent investigations into fraud and other acts of corruption as it is currently doing on Nova Vida. Group Five also has an independent whistle-blowing facility comprising the Tip-off Hotline, which affords internal and external callers confidentiality and anonymity with regard to any matters they wish to report.

The number to call is 0800 00 4811.

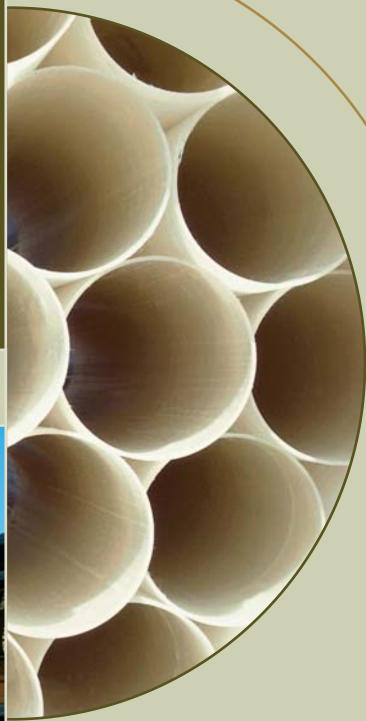
CONCLUSION

Following the well-publicised downfall of Enron, World-Com and others, business leaders around the world are coming to the inevitable conclusion that in a competitive market, sustained profits are as a result of effective risk management at all levels of an entity.

The challenge going forward for the risk department is to establish new methods of measuring the effectiveness of its risk management frameworks and initiatives to be able to better assure the board and company stakeholders that risks facing the group are identified and, to the best extent possible, managed and controlled.

To this end, the risk department has welcomed, and embraces, the group's Six Sigma drive. This tool will be used wherever possible in the group's aim to better manage risk by improving business processes. More detail on Six Sigma can be found on page 62.

Risk management is the responsibility of all managers in the group



year under review

The group is well-positioned and has the expertise to meet the 2010 demand for infrastructure and stadia

Group Five's sixth consecutive year of double-digit earnings growth is as a result of organising the operations into focused business streams under strong leadership, supported by solid service functions, risk management and continuous improvement processes.

YEAR UNDER REVIEW

Key points in this report

CHAIRMAN'S STATEMENT

- The South African economy has enjoyed a period of strong growth in recent times with the construction sector, as a whole, continuing to show positive movement
- The global economy, however, is in a considerable state of flux and this fluidity will undoubtedly impact on the South African economy, as well as the group's other key areas of operation
- When viewed within this fluid global context, the overarching Group Five business strategy is of critical importance. Striking the right balance between the group's South Africa activities and over-border initiatives is key to its success
- The group recognises that there is an important symbiotic relationship between businesses and the societies in which they operate. Group Five fully recognises that its business success must necessarily be achieved within the context of a society that is effectively dealing with its key issues, and therefore strives to deal proactively with unemployment, job creation and skills development within the construction sector
- The results of the group's CSI initiatives are clear. Group Five is increasingly viewed as a responsible, active and visible corporate citizen – one that makes a significant contribution to the positive evolution of our society
- The group's formal Code of Ethics was rolled out in the group in 2004 and Group Five will continue to firmly enforce its zero tolerance policy towards irregular business practices
- Group Five has been recognised as the most empowered company in the basic industries sector of the JSE (Financial Mail, Top Empowerment Companies 2006), and as one of South Africa's leading companies in general. Ranked 7th in FinWeek's Top 200 Listed Companies in 2005, as well as in the Sunday Times Top 100 companies (2005), the group has clearly and consistently grown in stature as a truly empowered and progressive company

CEO'S REVIEW

- Group Five's sixth consecutive year of double-digit earnings growth is as a result of organising the operations into focused business streams under strong leadership, supported by solid service functions, risk management and continuous improvement processes
- In every Group Five business unit the primary objective is to deliver higher profitability, measured by margin growth and return on capital employed
- The group's strategy going forward is to develop long-term sustainable operations with local partners in selected over-border markets
- The group is determined to eliminate loss-making contracts through continuous improvement methodologies and employing, developing and positioning the right people in the right jobs
- To meet the construction challenges, it is envisaged that by 2014 industry capacity needs to more than double from current levels and an additional 60 000 jobs need to be created in the sector.
- As growth prospects in local and strategic over-border markets have reached levels unseen for more than a decade, the most daunting challenge facing the group is the ability to secure experienced engineering competence and skilled resources to undertake the work.
- The group's growing investment in training and development initiatives is building capacity and strengthening operational management to address the challenge.
- The group is well positioned and focused to benefit from the favourable market conditions and exciting prospects. The group therefore anticipates that F2007 will yield improved margins, strong cash generation and good earnings growth.

CHAIRMAN'S STATEMENT

DENNIS PAIZES

INTRODUCTION

Group Five focused on improving the way it operates during this year. As outlined in the annual report, huge effort has been put into creating a continuous improvement philosophy to ensure consistent behaviour and delivery. The initial results of this strategy are clearly evident – not only in the impressive financial performance detailed herein, but also in the success the group has enjoyed in its efforts to concretise its position as one of the country's efficient, well structured and growing construction businesses.

RESULTS

The group produced a robust improvement in earnings for the sixth successive year. Headline earnings per share (HEPS) grew by 34.7% and HEPS from continuing operations by 98.4% compared with the prior year.

Revenues increased sharply by 30% and in line with the group's stated intent, the group's cash position further strengthened by R391 million during the reporting period.

The final dividend of 36 cents per share increases shareholder annual distribution to 56 cents per share, well ahead of last year's 49 cents.

MACRO-ECONOMIC OPERATING ENVIRONMENT

The South African economy has enjoyed a period of strong growth in recent times with the construction sector, as a whole, continuing to show positive movement. Close to R400 billion is earmarked for infrastructure projects over the next five years. There is reason therefore to hold to earlier estimates of real compound growth of 6.5% for the industry for the foreseeable future.

The global economy, however, is in a considerable state of flux and this fluidity will undoubtedly impact on the South African economy, as well as the group's other key areas of operation, namely the greater African continent, Eastern Europe and the Middle East. Political instability in key global regions and resulting oil price volatility, in particular, seems likely to impact on many companies operating in these regions.

The group produced a robust improvement in earnings for the sixth successive year. Headline earnings per share (HEPS) grew by 34.7% and HEPS from continuing operations by 98.4% compared with the prior year.

When viewed within this fluid global context, the overarching Group Five business strategy is of critical importance. Striking the right balance between the group's South Africa activities and over-border initiatives is key to its success. It is with some satisfaction that I am able to report that the group's primary focus on effective risk management and a sharpened operational structure (as outlined in the Strategic Review on page 55) has paid dividends and positioned Group Five to achieve consistent and sustainable growth moving forward.

Group Five structure and geographical focus

Group Five sharpened its business structure and refocused its geographical footprint during the year. Going forward, the group's aim will be to generate one third of revenues outside South Africa, with a focus on Africa and the Middle East, as well as a niche toll road concession business in Eastern Europe. A small share of these markets, carefully selected and well controlled, should achieve significantly higher margins and improved bottomline.

Equally, a strategic focus on the size and scope of projects will significantly enhance Group Five's ability to maximise business value and revenue.

THE GROUP FIVE WAY

The full internal alignment of behaviour and operational intent within the group has been identified as an area of critical importance – one that impacts on the substance of the group's relationships with its customers and on its ability to deliver on market expectations. The group therefore implemented The Group Five Way during the year. This will ensure that the group's continuous improvement philosophy, strategic planning, technological support, governance and compliance are rooted in the day-to-day operational reality (refer page 60.) Central to this effort has been the drive to ensure that staff across the group is fully aware of the practical ramifications of continuous improvement and is active in making this philosophy a reality.

Group Five also launched an in-house training Academy in the period under review. The Group Five Academy is a concrete illustration of the strategic relevance of the group's balanced scorecard and is, I believe, a groundbreaking approach to the holistic treatment of the training and skills development function. From skills training through to employee orientation and the executive development programme, Group Five views training and skills development as a continuum. The Group Five Academy works across the full scope of this continuum to respond to skills shortages at all levels within the industry. By covering the entire work chain, the Group Five Academy acts as a very necessary umbrella for the group's training requirements and ensures that the Group Five Way is relevant at all levels within the group organisation. This approach enables the group to take an active stance in terms of the skills shortage facing the construction industry. (Refer to page 64.)

> The results of the group's CSI initiatives are clear. Group Five is increasingly viewed as a responsible, active and visible corporate citizen – one that makes a significant contribution to the positive evolution of our society.

This holistic approach to the group's position within the larger South African community recognises that there is an important symbiotic relationship between businesses and the societies in which they operate. Indeed, Group Five fully recognises that its business success must necessarily be achieved within the context of a society that is effectively dealing with its key issues, and therefore strives to deal proactively with unemployment, job creation and skills development within the construction sector.

Group Five's community presence and position as a responsible, committed corporate citizen is threaded into the group's larger business strategy. The People at the Gate programme, for instance, which engages unemployed job seekers who routinely arrive at the entrance to construction sites, is as much a worthy social initiative as it is part of the group's training and skills development function. The same is true of the group's provision of bursaries and its general spend on CSI, which has increased again to 0.14% of payroll over the reporting period.

The results of the group's CSI initiatives are clear. Group Five is increasingly viewed as a responsible, active and visible corporate citizen – one that makes a significant contribution to the positive evolution of our society.

(1)

(1) *Trainees with their community representitive celebrate their graduation* **(2)** *Deputy President, Phumzile Mlambo-Ngcuka with Dr TJ Lupepe, chairman of the iLima Group, celebrate at the announcement of Group Five's BEE ownership transaction*

(2)

CORPORATE GOVERNANCE

The group's formal Code of Ethics was rolled out in the group in 2004 and Group Five will continue to firmly enforce its zero tolerance policy towards irregular business practices.

In the period under review in line with the group's zero tolerance towards irregular business activities, senior management took action regarding irregularities on the Nova Vida Housing Project in Luanda, Angola, which was completed in 2005.

Reports were received by management from various sources expressing concern around possible irregularities and potential illegal activities by Group Five personnel. Investigations by senior management indicated that at least some basis appeared to exist for reasonable suspicion that irregular activities had indeed taken place. No firm evidence has yet been found and no charges laid as yet.

In line with the group's zero tolerance policy, management felt that the matter should be reported to the SA Police Service (SAPS) in accordance with the Prevention and Combating of Corrupt Activities Act of South Africa.

As at the reporting date, I am pleased to report the Angola operations have been normalised and legalised and all outstanding duties and taxes settled.

BLACK ECONOMIC EMPOWERMENT

Group Five has been recognised as the most empowered company in the basic industries sector of the JSE (Financial Mail, Top Empowerment Companies 2006), and as one of South Africa's leading companies in general. Ranked seventh in FinWeek's Top 200 Listed Companies in 2005, as well as in the Sunday Times Top 100 companies (2005), the group has clearly and consistently grown in stature as a truly empowered and progressive company.

A key component of the group's empowerment strategy moving forward is the enterprise development deal reached with iLima Projects (Pty) Ltd. This agreement will see the group channelling significant resources to develop the iLima business, including skills transfer, management and labour assistance, the establishment of administration systems and a financial assistance package. The intention is to eventually absorb this business into Group Five to further transform the group.

This partnership adheres to the requirements of the Construction Charter in that it has the specific aim of developing a black owned business and growing the capacity of a black business within the sector. From a Group Five perspective, however, the partnership is an important addition to the group's various joint ventures with black owned companies, and will contribute significantly to the group's strategic positioning over the medium term.

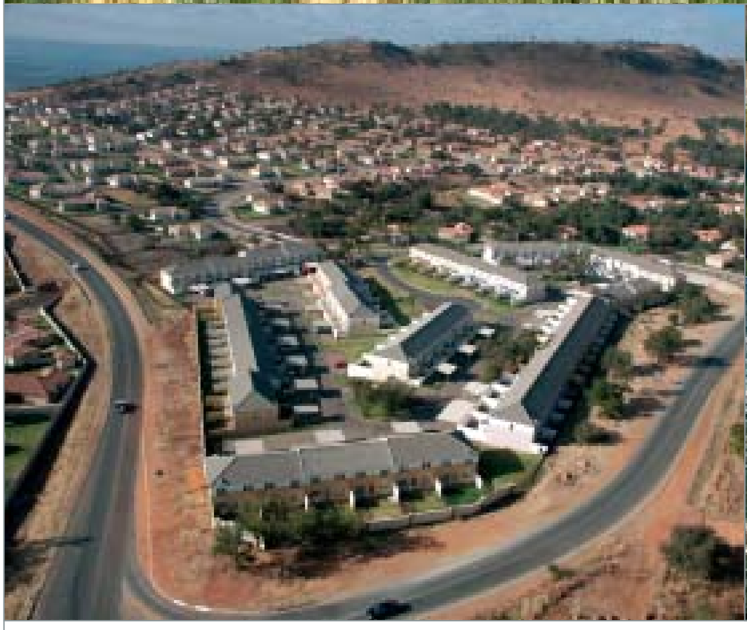
A key component of the group's empowerment strategy moving forward is the enterprise development deal reached with iLima Projects (Pty) Ltd.

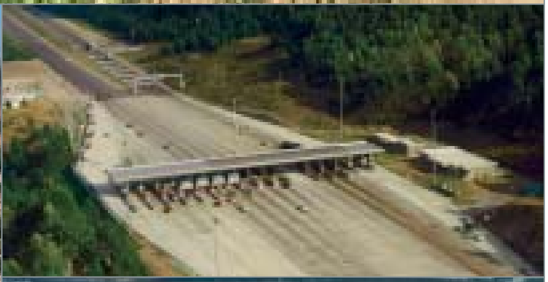
ACKNOWLEDGEMENTS

Ultimately, any business succeeds or fails on the strength of its people and their capacity to deliver quality services to the market, on a daily basis. Group Five continues to achieve sound growth and has assumed a clear position as a strong player in the construction sector. This achievement is thanks to the efforts of the group's people. I would therefore like to take this opportunity to thank staff at all levels of the organisation for the commitment they continually show to the health and wellbeing of the group, both as a fiscal and social entity. Your efforts make the difference.

A special word of thanks to the CEO, Mike Lomas, and the CFO, Paul O'Flaherty, who often go beyond the call of duty to deliver the results. Finally, I would like to thank the board for their support and assistance during this year. I also welcome Vusi Mavimbela to our board. He is the executive director for business strategy at one of the group's empowerment partners, Mvelaphanda.

In conclusion, we thank our customers and suppliers for their loyal support this last year and look forward to building closer relationships in the year ahead.





In order to fill the earnings gap created by the disinvestment from various businesses the group will pursue the expansion of building materials supply, new housing initiatives, public private partnerships and large multi-disciplinary engineering projects

CEO'S REVIEW

MIKE LOMAS

STRATEGIC OVERVIEW

Group Five's sixth consecutive year of double-digit earnings growth is as a result of organising the operations into focused business streams under strong leadership, supported by solid service functions, risk management and continuous improvement processes.

Revenues increased by 30% from R4 508 million to R5 865 million and operating profit surged 108.2% from R115,7 million to R240,8 million. This resulted in the overall operating margin percentage improving from 2.6% to 4.1%.

In every Group Five business unit the primary objective is to deliver higher profitability, measured by margin growth and/or return on capital employed.

As outlined in the Strategic Review on page 55, the group reviewed the current and future ability of certain business units and their positioning in their respective market segments to determine whether or not they are able to support the group's short- to medium-term goals.

As a result, Group Five sold its 50% interest in WSSA and its 25% interest in Group Five Saudi Pipe. It also closed down and sold off the concession, operations and maintenance business in India and subsequent to year-end, disposed of its 100% interest in Vaal and its 40% interest in DPI.

The disinvestment from these various businesses is to be replaced with new and exciting opportunities that will rapidly fill the earnings gap. The group is now pursuing expansion of building materials supply, new housing initiatives, PPP and large multi-disciplinary engineering projects. These opportunities will yield positive results in the year ahead.

The new initiatives have been created around current business operations and will leverage the group's ability to deliver enhanced earnings from business units' synergies.

Dramatic changes have positively impacted on the construction industry. Contracts are increasing in size and complexity. The group strategy is to organically grow the organisation to meet these challenging opportunities.

Group Five's sixth consecutive year of double-digit earnings growth is as a result of organising the operations into focused business streams under strong leadership, supported by solid service functions, risk management and continuous improvement processes.

INTERNATIONAL STRATEGY

During the year under review, the group reappraised the countries of operation and reduced the spread of activities. International work represents 37% of group revenue and 44% of construction revenue.

The group's strategy going forward is to develop long-term sustainable operations with local partners in selected over-border markets. The group's goal is to secure a third of group revenues from international operations.

Future developments will be focused on selected African countries, the UAE and Eastern Europe. (Refer page 38.)

> The group's strategy going forward is to develop long-term sustainable operations with local partners in selected over-border markets.

EFFICIENCY IMPROVEMENT

Group Five is committed to a process of continuous improvement through the implementation of Six Sigma, contract lifecycle standardisation, the introduction of the in-house Group Five Academy and Performance Management.

Resources have been committed to the Six Sigma process and a number of projects have been commenced within the group. It is anticipated that benefits will be realised within the next 12 to 18 months. (Refer page 60.)

RISK MANAGEMENT

Construction contracts are the primary source of Group Five's revenue. The company's profitability is dependent on individual contract earnings. A characteristic of the business is that risks and opportunities are not always symmetrical, with a well-executed project leveraging gross margin of a few percentage points and a loss-making project, however, resulting in a considerably larger downturn in earnings.

A loss-making contract not only results in absence of profits; it also consumes a disproportionate amount of executive time. The group is therefore determined to eliminate loss-making contracts through continuous improvement methodologies and employing, developing and positioning the right people in the right job.

During the period under review, the group's Risk Officer's role has been expanded to include overseas country risk and compliance, the establishment of operational risk registers and filter documents. The standardisation of the Group Five construction lifecycle has been finalised and will be implemented throughout the group. (Refer page 63.)

OPERATIONAL REVIEW

For a full operational and financial review, refer to page 92.

Infrastructural Development, which represents 5,4% of group revenue, houses Property Development Services and Infrastructure Development Services. This business stream is growing and results were strong. The number of projects is increasing, investor interest is high and Group Five is well positioned to participate as developer, investor, constructor and operator in a risk managed environment.

Manufacturing, which contributed 8,1% to group revenue, had a successful year. Operating profit surged 67,8%, primarily due to the strong performance of Everite.

Construction revenues, which represent 86,5% of group revenue, increased by 32.4% to R5 076 million (2005: R3 835 million). A significant improvement in business units' performance resulted in operating profit increasing by 137.6% to R147,7 million (2005: R62,2 million).

A significant cash generation of R391 million (2005: R111,2 million) was achieved.

SUSTAINABLE DEVELOPMENT

Group Five regards sustainable development as an important business imperative that impacts on all operations and also influences risks and opportunities

This annual report represents the second year of increased disclosure of operations and enhanced commitment to corporate governance. Refer to the Sustainability section of this report for detailed information.

TRANSFORMATION

The Construction Charter, which was signed on 17 March 2006, will become a major driver for sectoral transformation and growth. On 29 September 2005, shareholders approved the group's BEE ownership transaction that introduced black people directly into the shareholding of the company. The iLima and Mvela groups now jointly hold 21,6% of the enlarged share capital. The black management and broad based staff hold 3.9% and 0.6% of the enlarged share capital respectively. The group has now formally entered into an enterprise development scheme with iLima. (Refer page 163.)

Other elements of the Construction Charter are monitored on a monthly basis and it is an agenda item at business unit board meetings.

Following the successful implementation of JDE and the establishment of the supply chain in the Shared Services environment (Refer page 65), the group is now able to accurately monitor the BEE procurement profile throughout its operations. Every business unit is tasked with enhancing transformation in the procurement and provision of services.

Without doubt, the most challenging aspect of transformation is meeting Employment Equity targets, given the scarcity of senior black engineers. The group's EE policy has been realigned to meet this challenge. The recently established group EE forum, chaired by myself, will set targets and monitor progress.

CORPORATE SOCIAL INVESTMENT (CSI)

During the year, the group made significant progress with its "People at the Gate" skills programme and the launch of the Group Five Learnership scheme. The latter programme is focused on developing skilled workers to learnership levels of NQF 3 to 5 to address the skills void identified by the business units.

Employee participation with CSI initiatives is encouraged and staff involvement with various charities to which the group contributed R468 000 (0.14% of payroll), has increased markedly during the year.

(1) *Left destitute by the death of a breadwinner, orphans and the elderly, cared for by unregistered charity in Alexandra, are recipients of Group Five's staff donations* **(2)** *The group is committed to employing the right person for the right job*

(1)

(2)

HIV/AIDS

Group Five recognises the value of its employees and aims to promote a supportive environment for HIV infected employees.

Central to the management of HIV/AIDS in the group is a sound understanding of the disease and potential business impact.

The first group VCT programme was undertaken in 2005, with the support of Wits Health Consortium and financial assistance from the CETA. 3 337 employees were tested, representing 33% of the total workforce. Whilst results varied amongst categories of employees, an average infection rate of 19% was recorded. (Refer page 142.)

During the year, 135 peer educators were trained to assist with the HIV/AIDS prevention programme.

SAFETY AND HEALTH

Group Five's vision is to create a safe working environment for all its employees.

The group's health and safety strategy is based on the Code of Conduct and OHSAS 18001 international management guidelines with which all business units will be compliant by the end of 2006.

The prioritisation of safety and health on the group's sites and factories has led to a dramatic improvement over the last three years.

During the reporting period, a total of 24,3 million man-hours were worked and the DIFR showed a further improvement, with the DIFR of the group remaining consistently around one.

The number of formal inspections and site audits performed on construction job sites doubled to 1 330 in 2006.

Targets and their implementations are regularly evaluated by business units and their management.

It is regretted that during 2006 one employee lost his life in the Everite factory due to a work-related incident. This tragedy underscores the importance of further improvements in the fields of safety and the working environment.

Thato Motaung, traditional healer and HIV/AIDS counsellor with Bernadette Oliphant (Group Five CSI manager), Mike Lomas (CEO) and Prof Elizabeth Pienaar, head of construction economics and management for the Faculty of Engineering at Wits University, commemorate World AIDS Day

PROSPECTS

Government's planned R400 billion infrastructure programme, running parallel with preparation for the 2010 Fifa Soccer World Cup will create both exciting opportunities and exert huge pressure on the local construction industry.

To meet the construction challenges, it is envisaged that by 2014 industry capacity needs to more than double from current levels and an additional 60 000 jobs need to be created in the sector.

Whilst it is the general consensus that the residential market may slow down pending further interest rate hikes, the combination of capital injection by government and job creation will underpin development in the affordable housing sector of the market.

Strong demand exists for suitable industrial land close to metropolitan areas and development opportunities to meet these requirements. Investments in retail and commercial developments throughout the country remain strong.

Contract enquiries to service the civil engineering sector have increased markedly, leading to rapidly strengthening order books. In light of the imminent building of soccer stadiums and associated infrastructure development, management is cognisant of the fact that spare capacity must be created to ensure participation in these and other major projects.

The group's capacity to undertake road works was reduced appreciably during a period of work shortage and extreme competitive bidding. With tender activity for central and provincial government on the country's road network showing a marked increase, opportunities now exist to secure road construction work at margin levels that support group returns and cost of capital.

High oil prices and the resurgence of mining and mineral beneficiation, underpinned by China's burgeoning demand, have led to strong growth prospects for civil and engineering projects. Opportunities now exist on the African West Coast and north of the group's borders.

Prospects in the power generation and distribution sector, both locally and elsewhere on the continent, are leading to exciting turnkey project opportunities. The recently developed Power Projects business unit within Engineering Projects – with an established track record with financial institutions and gas turbine manufacturers – will ensure growth in the sector.

Dubai remains an important market for Group Five. Given the double-digit economic growth rate and $25 billion per annum construction expenditure, business unit participation in niche market segments, such as airports, will ensure good growth prospects.

As growth prospects in local and strategic over-border markets have reached levels unseen for more than a decade, the most daunting challenge facing the group is the ability to secure experienced engineering competence and skilled resources to undertake the work.

The group's growing investment in training and development initiatives is building capacity and strengthening operational management to address the challenge. (Refer page 156.)

The group is well positioned and focused to benefit from the favourable market conditions and exciting prospects. The group therefore anticipates that F2007 will yield improved margins, strong cash generation and good earnings growth.

APPRECIATION

On behalf of the executive team, I wish to thank the board for their direction and support during a period of positive, yet dramatic, change within the group.

We welcome the appointment of Vusi Mavimbela to the Group Five Board and look forward to his involvement and contribution.

In April of this year, Peter Sherwen who joined the group in 2004 as Managing Director of Property Development Services, died tragically. Peter was known for his integrity and enthusiastic commitment and is sadly missed by management and staff alike.

I wish to thank my colleagues on the Executive and Management Committees for their unwavering commitment and sense of purpose in producing an outstanding set of results.

My appreciation and gratitude is extended to management and all members of staff and their families for making Group Five as strong as it is today.

Finally, I express the group's appreciation to its shareholders for their continued support and assure them of Group Five's steadfast commitment to the continued creation of shareholder value.

During the year the group re-evaluated the current and future ability of certain business units and their respective market segments to support the group's short- to medium-term financial targets. As a result, Group Five sold its 50% interest in WSSA for R2 million, its 25% interest in Group Five Saudi Pipe for $1 million, closed down and sold off its concession and operations and maintenance business in India and, subsequent to year-end, disposed of its 100% interest in Vaal and its 40% interest in DPI for R107 million.

As a result, in terms of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the result of these operations have been disclosed as discontinued for both years presented. The operational and financial review that follows, discusses the continuing operations only.

- Infrastructural Developments
  - PDS
  - IDS
- Manufacturing
  - EVERITE
  - GROUP FIVE PIPE
- Construction
  - BUILDING AND HOUSING
  - CIVIL ENGINEERING (INCLUDING ROADS AND EARTHWORKS)
  - ENGINEERING PROJECTS

The results for the year ended 30 June 2006 were as follows:

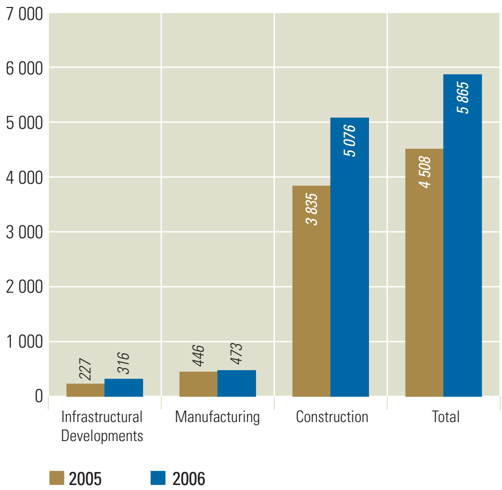
Revenue

	2006 R'000	2005 R'000
Infrastructural Developments	**316 217**	227 290
PDS	**126 970**	94 773
IDS	**189 247**	132 517
Manufacturing	**472 975**	446 308
Everite	**450 736**	431 776
Group Five Pipe	**22 239**	14 532
Construction	**5 075 529**	3 834 687
Building and Housing	**2 788 466**	2 268 610
Civil Engineering, Roads and Earthworks	**1 662 700**	1 051 679
Engineering Projects	**624 363**	514 398
Total revenue	**5 864 721**	4 508 285

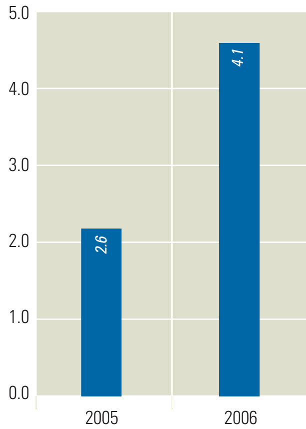
Operating Profit

	2006 R'000	2005 R'000
Infrastructural Developments	**32 450**	17 378
PDS	**25 244**	11 240
IDS	**7 206**	6 138
Manufacturing	**60 651**	36 157
Everite	**57 109**	34 369
Group Five Pipe	**3 542**	1 788
Construction	**147 698**	62 152
Building and Housing	**81 467**	44 158
Civil Engineering, Roads and Earthworks	**51 650**	(9 712)
Engineering Projects	**14 581**	27 705
Total operating profit	**240 799**	115 686
Overall operating profit margin (%)	**4.1**	2.6

Revenue from continuing operations
R million



Operating profit margin
Percentage



The group is pleased to announce its sixth consecutive year of double-digit earnings growth and a third consecutive year of improved cash generation.

Headline earnings per share increased by 34.7% from R1,43 to R1,93 and earnings per share increased by 7.1% from R1,82 to R1,95.

Revenue increased during the year by 30% from R4 508 million to R5 865 million and operating profit increased by 108.1% from R115,7 million to R240,8 million. This resulted in overall operating margin percentage improving by 1.5% from 2.6% to 4.1%. Other net income decreased from R44 million to R21,5 million, primarily due to the fair value adjustments of R35,7 million (2005: R1,4 million) incurred in the prior year in the group's interests in the Eastern Europe service concessions. The large F2005 fair value arose due to a revision of performance risk on the Polish and Hungarian concessions during that year.

Headline earnings per share from continuing operations increased by 98.4% from R1,12 to R2,22 and earnings per share from continuing operations increased by 49% from R1,50 to R2,24. Finance costs were stable at R30,3 million (2005: R26 million) and reflect the strategy implemented two years ago to match long-term assets with long-term borrowings.

The effective tax rate of 27% (2005: 19.6%) approximates the statutory tax rate of 29%. The current tax charge reflects payments of prior year taxes in foreign territories which have been offset by the raising of full deferred tax assets on assessed tax losses incurred prior to 30 June 2005, and the lower tax charge enjoyed by income earned in over-border lower tax jurisdictions.

The final dividend of 36 cents per share (2005: 32 cents per share) reflects the policy of the group of four times covered and brings the total dividends for the year to 56 cents per share (2005: 49 cents per share).

The improved overall operating performance resulted in profit before taxation generating cash of R231,9 million (2005: R133,8 million). This together with a continued focus on contract working capital management, offset partially by prior year tax payments in foreign territories, resulted in cash generated from operations of R376,6 million (2005: R138,5 million.) Net cash generated from investing activities of R47,7 million (2005: R9,7 million utilised) arose mainly as a result of the sale of the JSE bare dominiums for R73,9 million. Net cash generated from financing activities of R67,4 million (2005: R37,9 million utilised) included short-term borrowings raised of R98,2 million to fund the increased working capital for property developments. A net R100,7 million (2005: R20,4 million generated) was utilised in discontinued operations, primarily to settle obligations in India. All of the above resulted in significant overall cash of R391 million (2005: R111,2 million) being generated for the year.

(1) *Bank of Tanzania, Dar es Salaam, Tanzania* **(2)** *Harbour Edge residential and retail development, Cape Town* **(3)** *Intertoll Oribi toll plaza, KwaZulu-Natal south coast* **(4)** *Duffs Road Presidential project, Kwa Mashu, Durban* **(5)** *Development of The Gantry retail complex, Fourways, Gauteng* **(6)** *Trade Route Shopping Centre, Lenasia* **(7)** *Metorex owned Ruashi Mine, outside Lubumbashi, DRC* **(8)** *Civil works at the Aflease Uranium Mine, North West Province*

INFRASTRUCTURAL DEVELOPMENTS

Highlights:

- PDS, which was established two years ago, and is characterised by lengthy lead and deal conclusion times, had an extremely successful year with operating profit increasing by 124.6% from R11,2 million to R25,2 million
- IDS' revenue, which consists primarily of fees for operations and maintenance of toll roads, increased by 42.8% from R132,5 million to R189,2 million; operating margins decreased from 4.6% to 3.8%, primarily as a result of the write-off of specific project development costs for projects which are no longer being pursued
- PDS is currently developing 20 projects which should result in another strong performance in F2007
- An improvement in IDS' result is expected going forward due to the growing contribution of the higher-margin toll roads contracts in Hungary, which continue to unfold

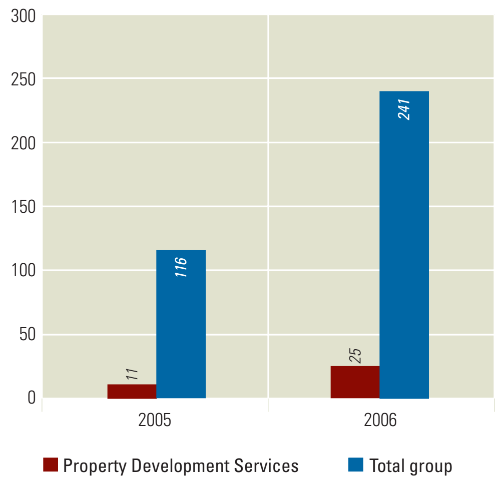
Infrastructural Developments houses the business of Property Development Services and Infrastructure Development Services. Higher returns are sought through risk-managed participation throughout a project lifecycle.

PROPERTY DEVELOPMENT SERVICES (PDS)

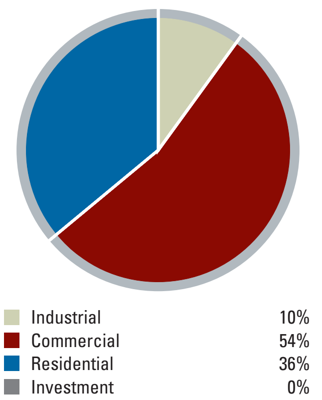
Overview

The objective of this business discipline is the creation of quality Group Five-branded property investment assets. PDS' focus is evenly spread across commercial, industrial, retail and specific residential property opportunities in South Africa. Positive differentiation of each project opportunity is a key success factor in this business.

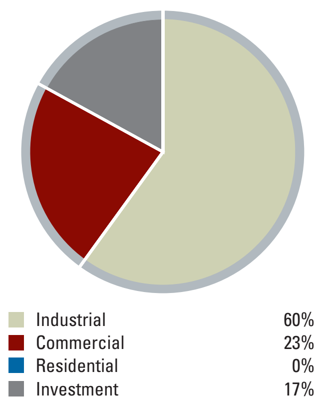
Operating profit
R million



Operating profit by property type – 2005



Operating profit by property type – 2006



A crucial aspect of PDS' operations is the efficient matching of demand with the supply of zoned land in a competitive and changing market environment. The control of land remains a development priority. To this end, PDS currently has some 20 sites in play, with many others under investigation.

PDS' growing team boasts well-balanced skills, energy and enthusiasm.

The business was deeply affected by the loss of its managing director, Peter Sherwen, who tragically passed away. Peter, who had been with the group since 2004 and was a member of Exco, brought a wealth of knowledge and integrity to this business.

The strong results for the year are directly attributable to his drive and passion. The group is currently looking at a number of options on how to address the running of the business. Until that is finalised, the day-to-day operations are being overseen by the group CFO.

PDS places particular emphasis on development risk procedures and site selection. The application of a formalised risk approach to all projects throughout the contract lifecycle entails continual assessment and management of risk, from initiation and pre-development to handover stage.

PDS is now well on its way to achieving its strategic goal of rapid, profitable growth through the continual development and replacement of a profitable portfolio of 20 to 30 contracts.

Results for the year and prospects

This business, which was established two years ago and is characterised by lengthy lead and deal conclusion times, had an extremely successful year, with growth starting to flow through. Operating profit increased by 124.6% from R11,2 million to R25,2 million. This was primarily as a result of the completion and transfer of a number of developments during the year which commenced more than 18 months previously. In addition, the business recorded fair value profits of R26,5 million (2005: R6,7 million) relating to the sale of its interests in the JSE bare dominium properties for R73,9 million.

Prospects remain positive, particularly in the commercial and industrial market and in the low- to middle-income residential housing bracket. This business will be expanded in the next year through strategic partnerships with developers with whom the group has worked for a number of years. The philosophy of a smaller slice of a bigger cake will be pursued during F2007. Currently 20 projects are being developed.

INFRASTRUCTURE DEVELOPMENT SERVICES (IDS)

Overview

IDS was reorganised during the second half of 2005 and concentrates on the development of large-scale infrastructure contracts, typically those with a construction value significantly above R1 billion and which are often characterised by PPP concessions, together with toll road operations and maintenance contracts.

The restructuring has yielded a number of rewards, not least of which is the emergence of a more efficient infrastructure and a strong project development and operating capability, supported by a consolidated pool of relevant management and project financing expertise.

The competitive advantage of the IDS team is derived from integrating the spread of skills available in the various Group Five business clusters and units with its own development and operating expertise. Higher returns are sought through risk-managed participation throughout the project lifecycle, a lifecycle which consists of the following stages:

- Development
- Financing and refinancing
- Construction
- Operations and maintenance
- Rehabilitation
- Handover or sale

In line with the Group Five focus on cross-selling across business units and business clusters, IDS' activities have contributed to other areas of the group.

As a result, Group Five now:

- Owns a business with long-term secured annuity revenue streams and predictable operating margins (toll road contracts)
- Has access to high-profile contracts that, once secured, should result in numerous benefits across the group,

eg King Shaka Airport, N2/N3 Wildcoast toll road concession, N1/N2 Winelands toll road concession and DME's IPPs

- Has the ability to achieve early investor advantage in infrastructure contracts and good returns on capital, whilst mitigating overall business risk through participation as contract operator and equity investor
- Enjoys intensive sector and market exposure that can help identify new business, as well as related acquisition opportunities

The contracts are often developed as PPPs with both local and international governments. These include the negotiation of complex concession agreements and related financing structures.

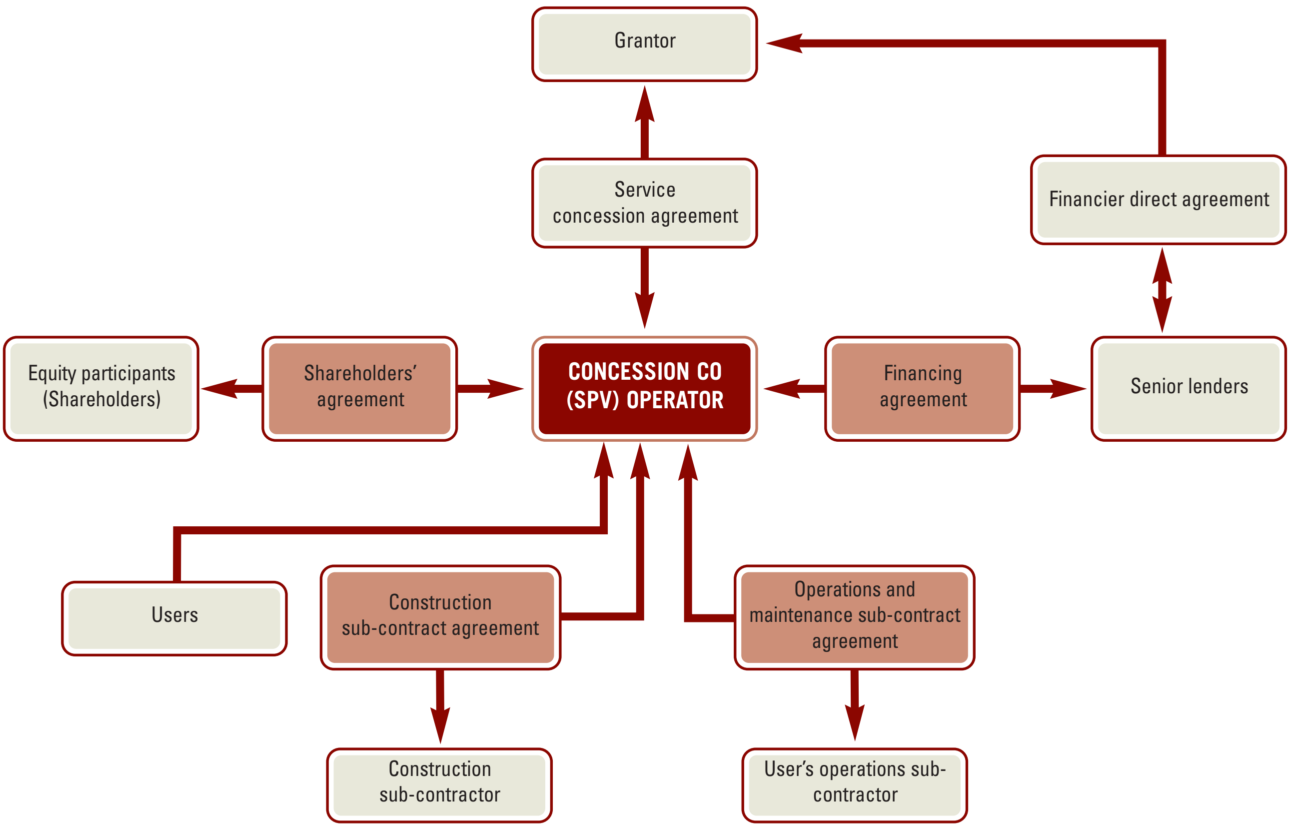
IDS has been positioned to take advantage of the opportunities posed by a buoyant local infrastructure sector and a rejuvenating concession market. The depth and experience of Group Five's IDS team places the business in a strong position to turn available market opportunities into actual secured work.

Intertoll's established niche positioning in the European toll road sector positions it to continue growing the over-border component of the business' activities.

Due to the size and complexity of contracts, lead times to successful contract implementation can be long. It should be noted that IDS takes a realistic perspective on the time and cost required to develop highly-complex concession-type infrastructure contracts and thus manages contract development expenditure tightly. Improved returns from this business' activities should be realised over a three-year period. Set out below is an overview of a standard concession PPP structure. Group Five's participation usually includes equity participation, operations and maintenance sub-contractor and construction contractor.

Results for the year and prospects

Revenue, which consists primarily of fees for operations and maintenance of toll roads, increased by 42.8% from



R132,5 million to R189,2 million, primarily due to the translation effects of a weaker Rand on the operations and maintenance revenue from Hungary, together with development fees of R30 million (2005: Rnil) earned on certain projects in the current year.

Operating profit increased by 17.4% from R6,1 million to R7,2 million, primarily due to increased contribution from unfolding operations and maintenance contracts in Hungary. Operating margins decreased, however, from 4.6% to 3.8%, mainly as a result of the write-off of specific project development costs for projects which are no longer being pursued. In addition, a fair value adjustment of R1,4 million (2005: R35,7 million) was recorded relating to the investment in the Eastern European service concessions.

The full positive effects of the higher-margin Hungarian operations and maintenance contracts are expected to continue to improve the performance of the business going forward. In addition, a number of key medium-term IPP contracts in South Africa and the rest of Africa are being pursued together with certain toll road concession opportunities in South Africa as well as government building PPP opportunities on the African continent.

Set out below are details of the concession investments, together with the group's toll road interests.

Current interests in toll road service concessions consist of:

						Value 30 June	
Name	Country	Kms	% interest	Concession period	Current status	**2006 R'000**	2005 R'000
M5	Hungary	157	3.5	25 years	Construction complete; operational	**40 535**	59 403
A1	Poland	89,6	15	30 years	Construction commenced in August 2005	**19 166**	22 965
Total						**59 701**	82 368

Details of toll roads currently operated by Intertoll are:

Name	Country	Kms	Duration of contract
N1 North	South Africa	359,5	March 2010
N1 South	South Africa	396,3	March 2010
Marianhill Toll Plaza	South Africa	3	May 2007
N2 South	South Africa	72	July 2006
Magalies	South Africa	22,2	April 2009
M5	Hungary	157	December 2009
M6	Hungary	58,6	December 2010

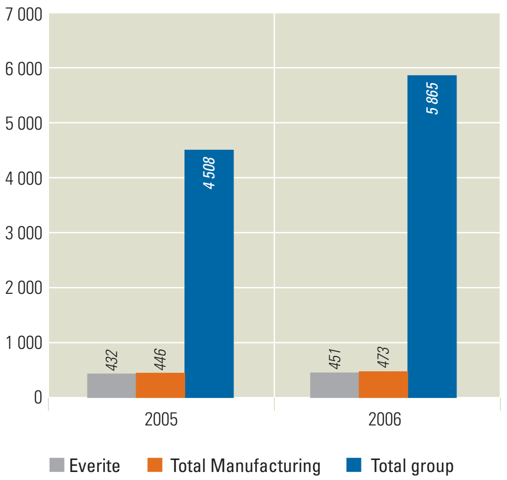
*In addition, the business has secured the operations and maintenance contract on the A1 in Poland which will commence once the construction is completed.

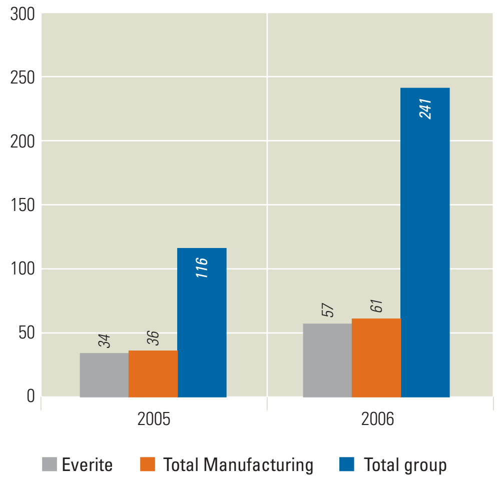
MANUFACTURING

Highlights:

- Everite continued to operate at full capacity, encouraged by strong residential growth which led to revenue increasing by 4.4% to R450,7 million and operating margins improving by 4.7% to 12.7%
- Everite is investing R50 million in F2007 to increase capacity, which should result in further earnings growth going forward
- Group Five Pipe showed improved results for F2006; prospects for F2007 are good due to securing a supply contract for the VRESAP pipeline

Manufacturing contributed 8.1% (2005: 9.9%) to group revenue. Revenue increased by 6% from R446,3 million to R473 million. Operating profit surged by 67.7% from R36,2 million to R60,7 million, primarily due to the strong performance from Everite.



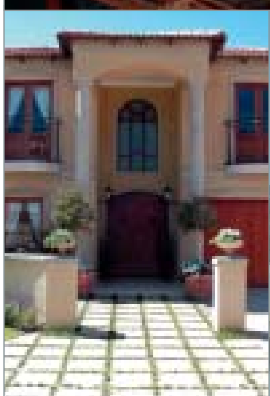


The split of operating performance by business unit was as follows:

	Year ended 30 June 2006		Year ended 30 June 2005		12 to 18 months target (average)
Business unit	**Revenue R'000**	**Actual operating margin %**	Revenue R'000	Actual operating margin %	Operating margin %
Everite	**450 736**	**12.6**	431 776	8.0	10 – 14
Group Five Pipe (50% proportionately consolidated)	**22 239**	**15.9**	14 532	12.3	12 – 18
Total	**472 975**		446 308		

(1)

(2)



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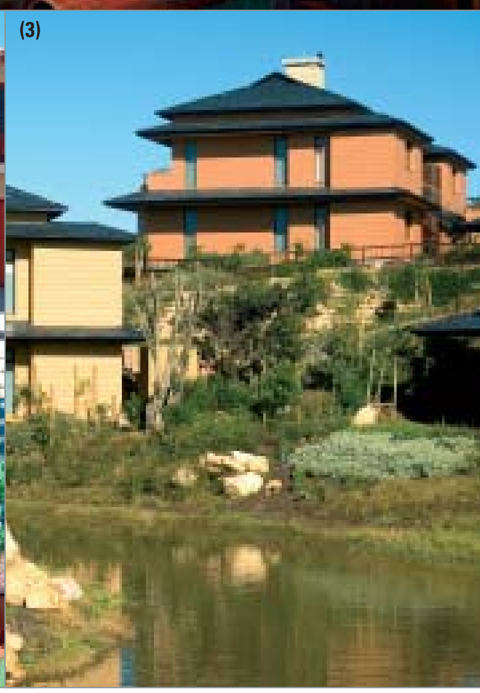


(4)

(5)

(6)

(1) *The stability of the non-asbestos profiled product range at Everite has been vastly improved* **(2)** *French Provençal architectural style is enhanced by fibre-cement decorative columns manufactured in the Everite pipe factory* **(3)** *Nutec Vermont cladding is used extensively on upmarket residential developments in the Western Cape* **(4)** *Large diameter steel pipes are manufactured by Group Five Pipe* **(5)** *Innovative designs have resulted in a growing market for handmade non-asbestos garden pots and water features* **(6)** *Group Five Pipe has achieved SABS ISO 9001/2000 accreditation*

EVERITE

Overview

Everite supplies non-asbestos fibre-cement building materials throughout southern Africa to the commercial, industrial, retail and residential markets. Everite is positioned as a commodity fibre-cement sheet manufacturer differentiated through product quality and its ability to serve a fragmented local market. It remains well positioned in the government-subsidised low-cost housing market and has also developed a small range of value-added products, such as high-density board (eg window sills), special profiled products (eg. Canadian profile roof sheets) and hand-moulded items (eg. garden pots).

Everite supplies its markets through the manufacture of a significant range of commodity products at its single-sited 15 million square metre production facility in Kliprivier, Gauteng, complemented by the importation of a limited synergistic product offering.

The non-asbestos fibre-cement technology at this plant has been enhanced through internally developed process improvements, particularly in the profiled products range where product stability and performance has been vastly improved. This pioneering work has in many instances been a world first and requests for technological assistance from global players are often received.

The business is constantly benchmarking itself against international best practice. With the Rand sustaining its strength and import competition growing, management remains focused on even greater production efficiencies and further reducing the fixed cost of doing business at Everite.

Everite will contribute to an even greater extent to the cross-selling initiative across the group, with particular focus on providing building material solutions aimed initially at the new entry bonded housing market, thus providing a contribution to PDS, IDS and Building and Housing.

Results for the year and prospects

Everite's revenue increased by 4.4% from R431,8 million to R450,7 million, with operating profits increasing by 66.2% from R34,4 million to R57,1 million, resulting in operating margin percentage improving by 4.7% from 8% to 12.7%.

Factory performances at the manufacturing plants were as follows:

	Year ended 30 June	
Everite	**2006 m²v ('000)**	2005 m²v ('000)
Actual production	**15 035**	14 500
Total sales	**14 652**	14 880
Group Five Pipe	**2006 tons ('000)**	2005 tons ('000)
Actual production	**14 155**	3 175
Total sales	**10 112**	3 175

In addition, approximately 5% of Everite revenue is achieved from the sale of associated trading goods such as cornices.

The Everite factory continued to operate at full capacity, encouraged by a strong residential building market. The business has managed the important threat, which resulted in small price increases, and has improved margins through continuous improvement initiatives in the factory and taking more control over its total supply chain. Everite has committed to invest in an expanded capacity programme over the next 18 months of approximately R50 million to take advantage of, amongst others, the ever-increasing low-cost housing initiatives. This expenditure will eventually result in an increased capacity of 25%. The continued increasing demand in low-cost housing and increasing capacity in the factory should lead to continued strong growth in F2007.

GROUP FIVE PIPE

Overview

Group Five Pipe, in which the group has a 50% interest, manufactures large diameter steel spiralled pipes. It is a very focused business that is dependent on large-scale contracts to ensure its fixed costs are recovered. With the expansion programmes by DWAF, demand for these pipes is increasing.

Results for the year and prospects

Group Five Pipe showed improved results for the current year. Prospects for F2007 are good due to securing a supply contract for the VRESAP pipeline, in which Civil Engineering is also a contracting party.

CONSTRUCTION

Highlights:

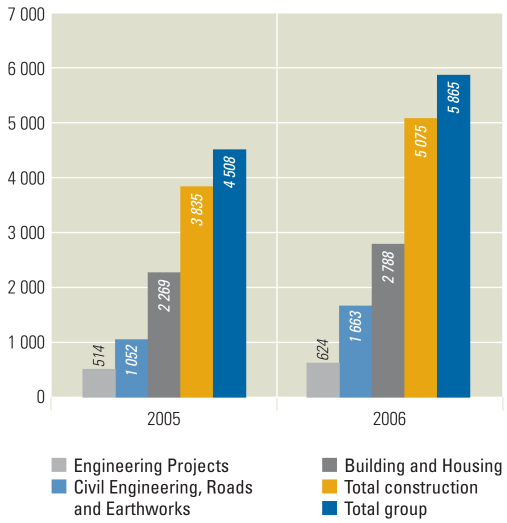
- Construction revenue increased by 32.4% to R5 076 million (2005: R3 835 million), operating profit by 138% to R147,7 million (2005: R62,2 million) and overall operating margin percentage improved by 1.4% from 1.5% to 2.9%; over-border work contributed 43.7% (2005: 41%) to construction revenue
- Building and Housing revenue increased by 22.9% from R2 269 million to R2 788 million, with operating profit almost doubling to R81,5 million from R44,2 million, resulting in an overall profit margin percentage of 2.9% (2005: 1.9%)
- Civil Engineering (including Roads and Earthworks) increased revenue by 58.1% from R1 052 million to R1 662 million and turned around the operating loss of R9,7 million in F2005 to an operating profit of R51,7 million at an operating profit margin percentage of 3.1%
- Engineering Projects revenue increased by 21.4% from R514 million to R624 million, but operating profit decreased by 47.4% from R27,7 million to R14,6 million due to two poor performing contracts
- With a secured F2007 construction order book of R4,7 billion, prospects for F2007 are strong

(1) *Side booms are used to lay pipes for the VRESAP pipeline between the Vaal Dam and Secunda* **(2)** *Bank of Mauritius*

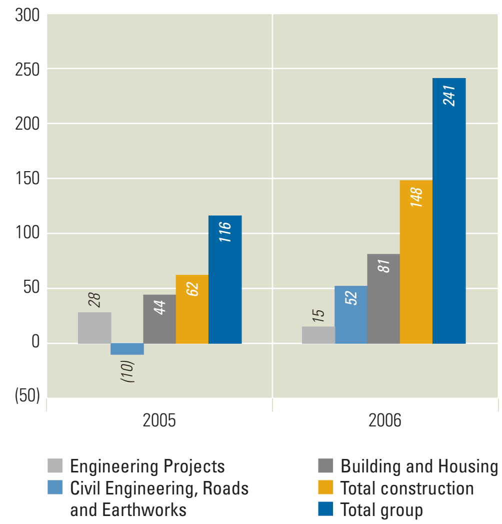
(1)

(2)

Revenue
R million



Operating profit
R million



The group's largest contributor at 85.1% of revenue (2005: 84.5% of revenue) continued its strong growth and remains well positioned for further growth in this sector.

Construction revenue increased by 32.4% to R5 076 million (2005: R3 835 million), operating profit by 138% to R147,7 million (2005: R62,2 million) and overall operating margin percentage improving by 1.4% from 1.5% to 2.9%. Over-border work contributed 43.7% (2005: 41%) to construction revenue.

The split of operating performance by business unit was as follows:

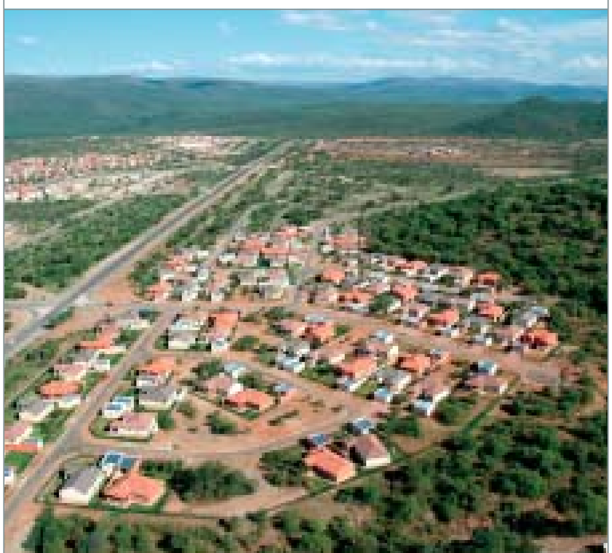
	Year ended 30 June 2006		Year ended 30 June 2005		12 to 18 months target (average)
Business unit	**Revenue R'000**	**Actual operating margin %**	Revenue R'000	Actual operating margin %	Operating margin %
Building and Housing	**2 788 466**	**2.9**	2 268 610	1.9	3 – 5
Civil Engineering (including Roads and Earthworks)	**1 662 700**	**3.1**	1 051 679	loss	3 – 5
Engineering Projects	**624 363**	**2.3**	514 398	5.4	3 – 6
Total	**5 075 529**	**2.9**	3 834 687	1.6	5

Secured order book (R millions)

Period	Total	Building and Housing	Civil Engineering	Engineering Projects
Year ended 30 June 2005 (actual)	3 835	2 269	1 052	514
Percentage over-border	41	31	51	66
Year to 30 June 2006 (actual)	5 075	2 788	1 663	624
Percentage over-border	44	27	65	67
Year to 30 June 2007	4 653	2 489	1 764	400
Percentage over-border	42	20	63	87
Estimated annual capacity	5 950	3 000	2 300	650

New premises for the Building and Housing operations in Woodmead, Gauteng

The Grand Floridian luxury apartment development on La Lucia Ridge, KwaZulu-Natal



The completion of 300 upmarket houses at Burgersfort in Mpumalanga has provided secure accommodation for employees of Anglo Platinum

BUILDING AND HOUSING

Overview

Building and Housing participates in various segments of the construction sector, including mass housing contracts, both of a public and private sector nature, high-rise residential apartments, commercial offices, retail shopping centres, industrial premises, educational and healthcare facilities and hotel and leisure facilities.

The successful restructuring of Group Five (refer page 12) has been extended to the Building and Housing cluster, where all business units now report to the same operational management structure, enabling:

- Improved synergy in both the management and operation of the businesses, nationally and internationally, in a more cohesive structure
- Improved flexibility of structure, enabling better reaction and turnaround time
- Deriving the benefits of resource sharing
- Enhanced sharing of network information
- Removal of excess management layers and enabling consequent economies of scale
- Enhancement of employee benefits, such as training, mentoring, career path planning and succession
- Improved team focus on work selection, in conjunction with strategic planning

Approximately 73% of Building and Housing's current activities take place in South Africa and the remainder over-border in countries such as Algeria, Tanzania, Zanzibar, Angola and the SADC region.

The key strategy of the business is to proactively align available resource capacity with appropriate margins and timeous contract selection and mobilisation, all of which enables above average market returns.

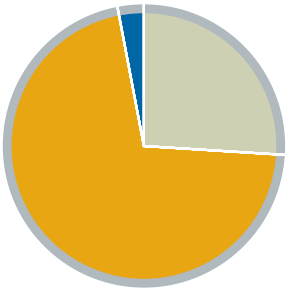
Significant projects undertaken in the current year (with total revenue contribution and percentage completion) were:

			Year ended 30 June 2006		Year ended 30 June 2005	
Project	Description	Location	**R'm revenue**	**% Completion (cumulative)**	R'm revenue	% Completion (cumulative)
Bank of Tanzania	Building of head office	Dar es Salaam, Tanzania	**537**	**90**	360	50
Lagoon Beach	Residential apartments and hotel	Cape Town	**5**	**100**	154	95
Uppark	Alterations and extensions to office block	Sandton	**3**	**100**	89	95
Burgersfort Housing	Residential houses for platinum mine	Burgersfort	**42**	**100**	84	75
Nova Vida	Residential houses for Angolan government	Luanda, Angola	**–**	**100**	62	100
Trade Routes	Shopping centre	Lenasia	**192**	**95**	69	30
Michelangelo Towers	Mixed development, including residential apartments	Sandton	**27**	**95**	70	95
Harbour Edge	Residential apartments and retail centre	Cape Town	**14**	**100**	67	90
Vangate Mall	Shopping centre	Cape Town	**94**	**100**	72	50
Bank of Zanzibar	Building of branch office	Zanzibar, Tanzania	**150**	**85**	56	30
The Grand Floridian	Residential apartments	KwaZulu-Natal	**13**	**100**	52	80
Algiers Sports Complex	Sports complex	Algiers, Algeria	**59**	**80**	58	40
Jabulani Mall	Shopping centre	Soweto	**87**	**65**	–	–
Mothlothlo Village	Mass housing		**42**	**30**	–	–
Nicole Grove	Shopping centre	Fourways	**150**	**95**	28	15

Results for the year and prospects

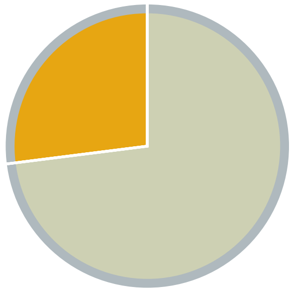
Building and Housing revenue increased by 22.9% from R2 269 million to R2 788 million, with operating profit almost doubling to R81,5 million from R44,2 million, resulting in an overall profit margin percentage of 2.9% (2005: 1.9%). This was primarily due to strong peformances on the group's East African contracts, which will be completed in the next six months. This more than offset the negative write-offs in Angola due to possible irregular activities, as reported on in the SENS announcement on 8 June 2006 (Refer page 77). All known losses relating to Angola have been fully accounted for at 30 June 2006. Prospects for F2007 are positive with a secured one-year order book already in the region of R2,5 million.

Building and Housing construction revenue by industry type – 2006



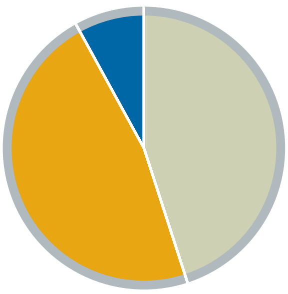
Residential	26%
Commercial/retail	71%
Industrial	3%

Building and Housing construction revenue by geographical location – 2006



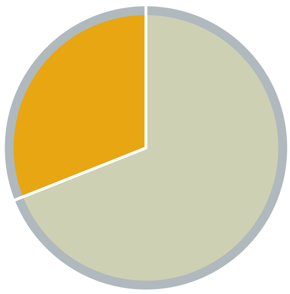
South Africa	73%
Rest of the world	27%

Building and Housing construction revenue by industry type – 2005



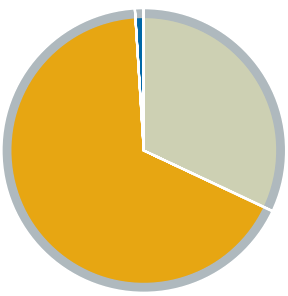
Residential	45%
Commercial/retail	47%
Industrial	8%

Building and Housing construction revenue by geographical location – 2005



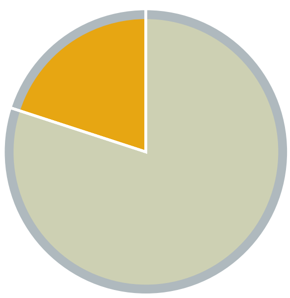
South Africa	69%
Rest of the world	31%

Building and Housing secured construction order book by industry type – 2007



Residential	32%
Commercial/retail	67%
Industrial	1%

Building and Housing secured construction order book by geographical location – 2007



South Africa	80%
Rest of the world	20%

CIVIL ENGINEERING (INCORPORATING ROADS AND EARTHWORKS)

Overview

Civil Engineering is the cluster within Construction that undertakes civil, roads and earthworks infrastructure contracts for public, mining and industrial contracts in Africa and the Middle East. Group Five enjoys a competitive advantage in terms of skills and experience, in two of the activities in which it specialises, namely its marine civils capability and its water infrastructure capability.

The multi-disciplinary offering and focus of the group is highlighted by the successful cooperation between Civil Engineering and other Group Five business clusters whereby turnkey solutions for infrastructure and industrial contracts are offered to the market.

Civil Engineering is in a consolidation phase of its business lifecycle after the integration of Civil Mining and Industrial in June/July 2005, followed by the integration of Roads and Earthworks in December 2005/January 2006. The consolidation and restructuring of the civil engineering capability within the group has enabled:

- Improved competitiveness due to lower overhead structures
- Enhanced flexibility due to improved resource utilisation
- Enhanced focus and strategic direction and alignment
- Enhanced teamwork and a streamlined management team
- Improved standardisation in respect of systems and controls

The four main focus areas of Civil Engineering in the short to medium term are to:

- Build capacity
- Access the necessary skilled resources to meet increased future demand in the markets in which it operates
- Further refine the risk management procedures required to successfully meet future demand
- Consolidate and integrate the team, including that of Roads and Earthworks, and to build a team with a common culture and value system
- Expand opportunities in Dubai

The groups' expertise with water retaining structures is evident at the Waterval waste water treatment works, south of Johannesburg

The 430m long Moma Jetty, which forms part of the Moma Heavy Mineral Sands Project in northern Mozambique

The mega cargo terminal contract at Dubai International Airport is one of several currently under way by Group Five Middle East for Dubai Civil Aviation (DCA)

Significant projects undertaken in the current year (with total revenue contribution and percentage completion) were:

			Year ended 30 June 2006		Year ended 30 June 2005	
Project	Description	Location	**R'm revenue**	**% Completion (cumulative)**	R'm revenue	% Completion (cumulative)
Bank of Tanzania	Head office – structural work	Dar es Salaam, Tanzania	**134**	**90**	360	50
Kansanshi	Structural work for plant at copper mine	Kansanshi, Zambia	**–**	**100**	70	95
PP2 Technical Building	Structure for Sasol plant building	Sasolburg	**13**	**100**	40	95
Mittal	Various small works at plant	Vanderbijlpark	**13**	**100**	56	95
Central Utilities Complex	Cooling system structure	Dubai airport, Dubai	**126**	**95**	37	25
Monkey Bay	Road construction	Malawi		**Terminated**	63	70
Sterkspruit/ Telle Bridge	Road construction	Eastern Cape	**2**	**100**	48	100
Oshikango/ Ondangwa	Road construction	Namibia	**45**	**100**	49	70
Cargo Mega Terminal	Cargo terminal building	Dubai airport, Dubai	**310**	**70**	6	1
Bank of Mauritius	Head office – structural work	Port Louis, Mauritius	**55**	**80**	36	33
IBOM power plant	Civil work for power plant	IBOM State, Nigeria	**34**	**25**	–	–
Berg River Dam	Civils and Roads work on dam	Berg River, Western Cape	**48**	**15**	16	3

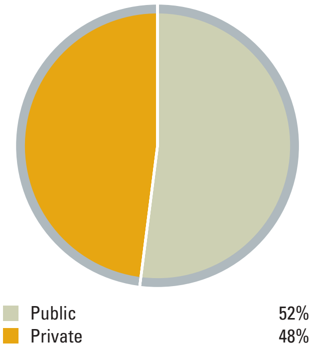
Results for the year and prospects

The Civil Engineering and Roads and Earthworks businesses locally and in South Arica were merged during the year to improve efficiencies and lower the overhead base of the business.

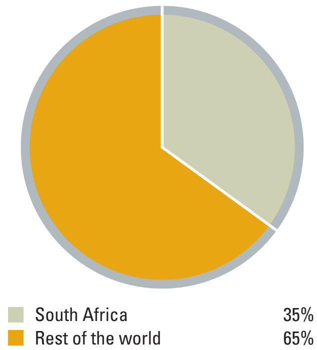
The combined Civil Engineering and Roads and Earthworks business, together with the Civil Engineering business in Dubai, increased revenue by 58.1% from R1 052 million to R1 662 million and turned around the operating loss of R9,7 million in F2005 to an operating profit of R51,7 million at an operating profit margin percentage of 3.1%. Civils project tender activity locally and in Africa, as well as Dubai, continues to increase. Dubai achieved its best performance since it was established two years ago.

A problem roads contract in Malawi was terminated during the year with all known losses being accounted for in prior years. The tail end of the long-term Roads loss-making contracts are complete and higher-margin contracts are being pursued in South Africa. An overall strong secured order book of R1,8 billion has already been secured for F2007, which should result in further growth in profitability during F2007.

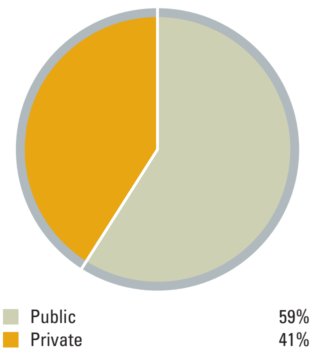
Civil Engineering and Roads and Earthworks construction revenue by industry type – 2006



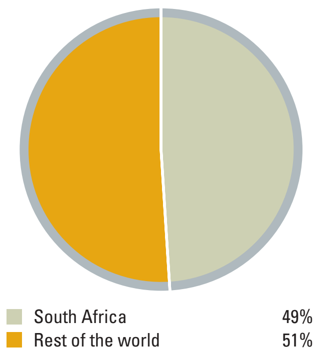
Civil Engineering and Roads and Earthworks construction revenue by geographical location – 2006



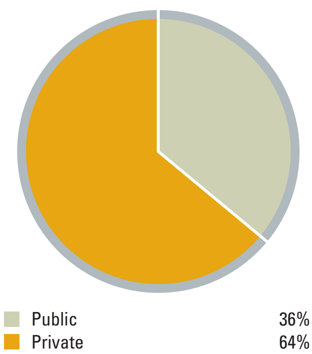
Civil Engineering and Roads and Earthworks construction revenue by industry type – 2005



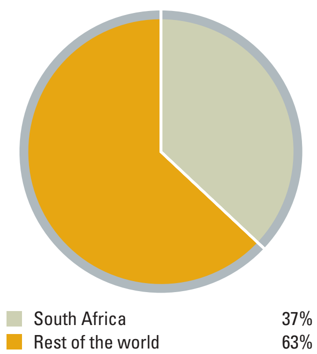
Civil Engineering and Roads and Earthworks construction revenue by geographical location – 2005



Civil Engineering and Roads and Earthworks secured construction order book by industry type – 2007



Civil Engineering and Roads and Earthworks secured construction order book by geographical location – 2007



Moving an entire copper processing plant from O'kiep in the North Western Cape to Ruashi in the DRC involved several heavy lifts

Group Five has a long standing association with Mittal Steel at Vanderbijlpark

Tank 11 at Cabinda, Angola, involved the group's multi-disciplinary expertise

ENGINEERING PROJECTS

Overview

Engineering Projects is the business cluster within Construction that undertakes higher-margin, multi-disciplinary SMEIP work, primarily for the private sector, in the mining, power, oil and gas and heavy industrial area.

The team's competitive advantage is derived from a unique set of skills that includes SMEIP supply and erection to the client's design.

The team's activities cover all construction disciplines. It has an ability to structure itself around strategic technology partners to deliver turnkey solutions for targeted industries and contracts, and it has a unique footprint in sub-Saharan Africa in the mining, energy and large industrial sector.

In terms of market positioning, a number of actions, listed below, have been implemented to move Engineering Projects up the value chain, thereby improving margins and positioning the group to access new markets:

- The addition to the Group Five portfolio of a number of partners in the engineering design and technology fields for specific sectors to position Engineering Projects as turnkey (design and construct) contractors
- The identification of capital expenditure in the resources and energy fields to support this strategy

Targeted industries include:

- Pulp and paper
- The new wave of junior miners in Africa
- Steel
- Cement
- Power
- Oil and gas

The three key focus areas of this business in the short to medium term are capacity building, people development and risk management. The actions to achieve this entail:

- Acquisition, development and retention of a new breed of project managers to operate at a higher intellectual level in the space the group wants to occupy. In addition, programmes have been instituted to develop and provide new opportunities to promising internal candidates

- Topping up capacity through the use of sub-contractors and partners
- Focusing on risk management and contract controls. In particular, pre-tender risk analysis and mitigation are well-developed activities and, during this year, a process re-engineering project was completed that has resulted in a detailed business management framework intended to improve contract execution

Results for the year and prospects

Significant projects undertaken in the current year (with total revenue contribution and percentage completion) were:

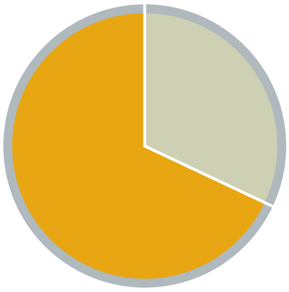
			Year ended 30 June 2006		Year ended 30 June 2005	
Project	Description	Location	**R'm revenue**	**% Completion (cumulative)**	R'm revenue	% Completion (cumulative)
Kansanshi plant	Engineering work for plant at copper mine	Kansanshi, Zambia	**23**	**100**	92	95
Etoile copper/ cobalt plant	Engineering and procurement work for copper/cobalt plant	Lubumbashi, DRC	**–**	**–**	75	100
Malongo Tank Farm	Engineering work for oil tanks	Cabinda, Angola	**59**	**75**	48	50
Mittal PCI Project	Engineering work for Mittal plant	Newcastle	**–**	**–**	44	100
Mispah Steel Plant	Engineering work for steel plant	Orkney	**60**	**100**	17	30
IBOM power plant	Engineering work for power plant	IBOM state, Nigeria	**75**	**25**	–	–

Results for the year and prospects

Engineering Projects had a disappointing year due to the negative effect of two poor performing contracts, one of which is in Cabinda, Angola, and the other in South Africa. All known losses have been provided for at year-end. One loss-making contract is complete, with the other expected to be completed in March 2007. The irregular activities in Angola, noted previously, also hampered performance on the Angola contract in Cabinda due to the knock-on work permit and import investigations. These issues have all been addressed.

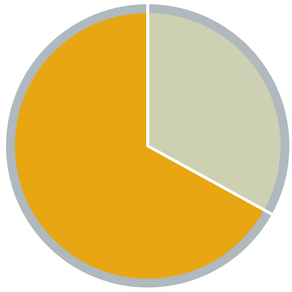
Engineering Projects' revenue increased by 21.4% from R514 million to R624 million with operating profit decreasing by 47.4% from R27,7 million to R14,6 million. This resulted in an overall operating profit margin percentage decrease of 3.1% from 5.4% to 2.3%. The business is generally a high-margin construction business due to the specialised nature of its work and with a one-year secured order book of R400 million at 30 June 2006, has capacity of approximately R250 million to take avantage of higher-margin mining, oil and gas and power contracts during F2007.

Engineering Projects construction revenue by industry type – 2006



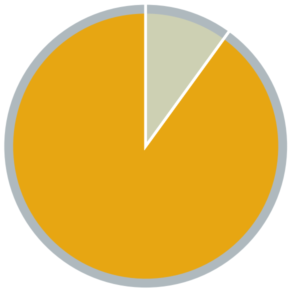
Oil, gas and power 32%
Mining and industrial 68%

Engineering Projects construction revenue by geographical location – 2006



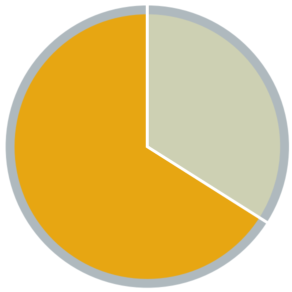
South Africa 33%
Rest of the world 67%

Engineering Projects construction revenue by industry type – 2005



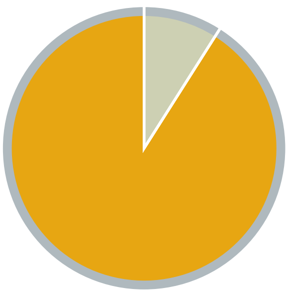
Oil, gas and power 10%
Mining and industrial 90%

Engineering Projects construction revenue by geographical location – 2005



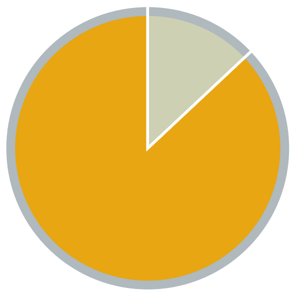
South Africa 34%
Rest of the world 66%

Engineering Projects secured construction order book by industry type – 2007



Oil, gas and power 9%
Mining and industrial 91%

Engineering Projects secured construction order book by geographical location – 2007



South Africa 13%
Rest of the world 87%

sustainability report

The CSI project, People at the Gate, provides basic skills training to local community members

Group Five is dedicated to being a caring corporate citizen committed to its predominantly South African stakeholders. The group aims to effectively manage its economic, social and environmental relationships through an integrated approach to its stakeholders and the environments in which it operates. In this year's annual report, Group Five has reported in line with Global Reporting Initiatives (GRI). (Please refer page 182.)

SUSTAINABILITY REPORT

This sustainability report is structured around the key areas of:

For completeness purposes, the data provided in the HR and SHEQ reports above include the discontinued operations referred to on page 92.

Group Five welcomes feedback on how it reports on the issues of sustainability, something that is seen as core to its business.

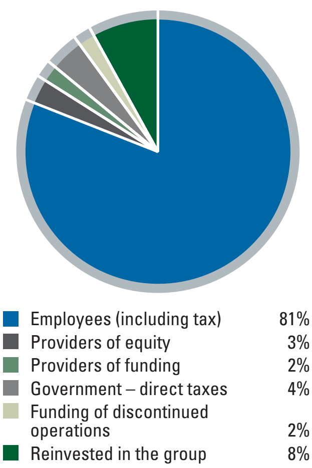
Please send any comments to feedback@g5.co.za

Mike Lomas,
CEO

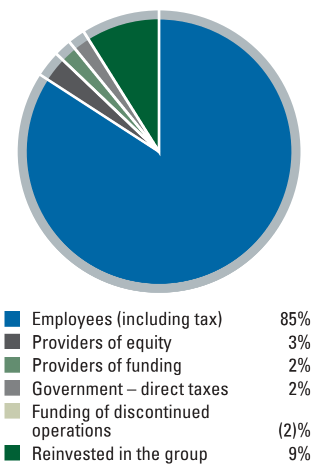
VALUE ADDED STATEMENT

	2006 %	2006 (R'000)	2005 %	2005 (R'000)
Revenue		**5 864 721**		4 508 285
Less purchased cost of goods and services		**(4 441 644)**		(3 467 828)
Value added	**98.5**	**1 423 077**	95.9	1 040 457
Other income	**1.5**	**21 503**	4.1	44 032
Wealth created	**100**	**1 444 580**	100	1 084 489
Employees (including employees' tax)	**81.8**	**1 181 816**	85.3	924 771
Providers of equity	**2.6**	**37 429**	3.1	33 215
Providers of funding	**2.1**	**30 329**	2.4	25 922
Government – direct taxes	**4.3**	**62 754**	2.4	26 199
Funding of discontinued operations	**1.5**	**21 536**	(2.1)	(22 220)
Reinvested in the group	**7.7**	**110 716**	8.9	96 602
Wealth distribution	**100**	**1 444 580**	100	1 084 489
Number of employees		**10 234**		9 164
Wealth created per employee (R)		**141 550**		118 342
Weighted average number of shares		**73 496**		70 329
Wealth created per share (R)		**19,66**		15,42

Distribution of wealth created – 2006



Distribution of wealth created – 2005

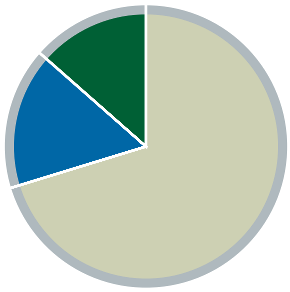


SHAREHOLDER ANALYSIS

Largest five shareholder types – percentage of shares held at 30 June 2006

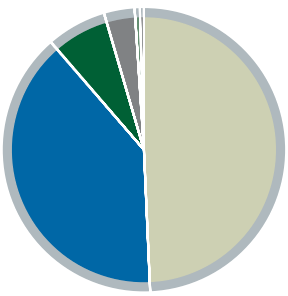
Banks	10%
Empowerment Trusts	26%
Individuals	8%
Mutual Funds	25%
Pension Funds	11%

Beneficial shareholders with an interest of 5% or more – percentage of shares held at 30 June 2006



Empowerment Trusts	26%
Old Mutual Group	6%
Morgan Stanley	5%

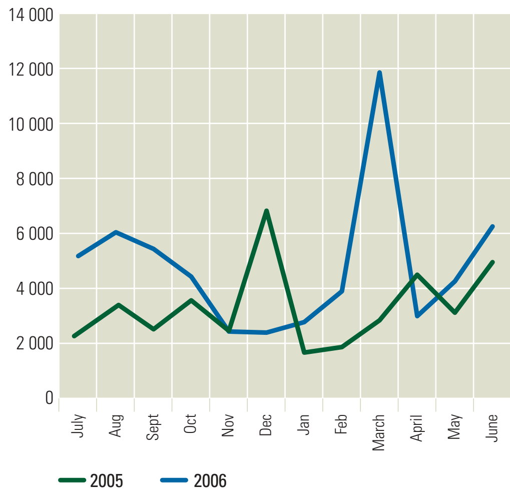
Shareholder spread – number of shareholders at 30 June 2006



1 – 1 000 shares	1 921
1 001 – 10 000 shares	1 533
10 001 – 50 000 shares	266
50 001 – 500 000 shares	136
500 001 – 1 000 000 shares	21
1 000 001 and over shares	15

Volume of shares traded – per month

2006 versus 2005



Group Five is committed to effective stakeholder interaction and aims to continue improving the way it interacts with all its audiences. Set out below is a table of key stakeholders and how Group Five interacts with each.

Main audiences:

- Investors
- Media
- Employees
- Government
- Customers
- Partners
- Communities

Audience	Their needs	Group Five's objectives	How objectives are achieved	Responsibility
Investors • Analysts • Shareholders • Fund managers • Funders • Insurers	• Information • Returns • Stability • Low risk	• Ensure a positive perspective and understanding • Ensure growth and support • Ensure cash and favourable returns	• Regular information and established relationships • Consistent performance • Clearly defined goals	• CEO • CFO • Communications and investor relations teams
Media	• Information • News	• Supportive and informed media	• Targeted relationship building programme	• Communications team • MDs • CEO • CFO
Employees • Business clusters and units • Employees, including international staff • Unions	• Support • Information that empowers (feedback) • Systems, programmes and attitudes that allow cross-business strategy	• Ensure "one team" • Ensure well-informed employees • Ensure structures to identify business opportunities • Ensure understanding and appreciation to work together effectively	• Putting structures of cross-business information in place • Structures of information flow linked to business processes • Manco structure • Regular information flow	• CEO • Exco • MDs • Communications team • HR

Audience	Their needs	Group Five's objectives	How objectives are achieved	Responsibility
National government • Public Works • Transport • Housing	• Transformed construction industry • Delivery	• Partnership • Business	• Building relationships with key stakeholders	• CEO • MDs • Business development
Provincial government	• Transformed construction industry • Delivery	• Partnership • Business	• Building relationships with key stakeholders	• MDs • Business development
Municipalities	• Empowerment • Delivery of services	• Partnership • Business	• Building relationships with key stakeholders	• MDs • Business development
Customers	• Safety • On-time delivery • Empowerment	• Positive view of Group Five that leads to preferred partner status • Business	• Building relationships with key stakeholders	• MDs • Business development • Communication team
Partners	• Effective relationships • Security, risk sharing • Capacity • Delivery	• An environment to deliver through effective partnerships • Ensuring that the "sum is bigger than the parts", which allows synergy and winning work • Be seen as a trusted partner	• Identify correct partners • Implement standardised partnership agreements • Constantly build relationships	• MDs • Business unit teams
Communities	• Want companies to operate responsibly • Employment • Expect social investment	• Trusted and respected by the community • An employer of choice	• Media • Being responsible and ethical in all dealings • CSI and training programmes	• Communications team • CSI officer

INVESTORS AND MEDIA

Group Five appreciates the information needs of its shareholders, media and the investment community at large. Thus, in the interests of transparency and disclosure, the group has proactively formalised its investor and media relations function.

The investment community is a major stakeholder group with whom Group Five regularly communicates in a variety of ways. The investor communication is as inclusive as possible, encompassing buy-side analysts, sell-side analysts, institutional fund managers and retail fund managers. With the assistance of regular surveys conducted with representative samples of the investor community, Group Five focuses on what the market deems to be the most valuable aspects of investor interaction.

The group also sees the media as a crucial stakeholder group and regular meetings are held with journalists to inform them of developments in the group. Journalists are also included in shareholder and analyst interaction forums, such as presentations on results or other announcements.

Group Five is cognisant of the fact that the various categories of shareholders in Group Five have different information needs and expectations of returns on investment, on a continuum from short to long term. Integral to these investment decisions is the regular dissemination by the group of reliable information within the constraint of a rapidly evolving market. A key emphasis of the group's investor and media communication is to avoid hype at all costs and to focus on the accurate communication of facts about Group Five on an inclusive basis. In Group Five's experience, the financial markets are sophisticated enough to interpret these facts to make their own investment decisions. An important element is the communication not only of positive news about the group, but also timeous and accurate communication of negative news. In line with JSE requirements, announcements are made through SENS.

In addition to financial information, many of the investors and media are also interested in how the business is performing on non-financial issues such as BEE, corporate governance, risk management and ethics. Group Five has made a concerted effort to include information on such issues in its various communications to shareholders, analysts and the media.

This communication takes place through various channels, including:

- The annual report
- Interactive presentations at both interim and final results stage
- Presentations, by invitation, at investor conferences
- Site visits during the year
- Investor and media lunches with key members of Group Five's operational and head office management during the year to meet the specific needs of various investor groupings
- The group's website (www.g5.co.za)
- Press releases
- SENS announcements
- Direct communication with all stakeholders who approach the group for information, always within the constraints of the JSE requirement of equal information

These interactions are evenly spaced throughout the year to provide useful opportunities to members of the financial community to update their knowledge of the group. The investor functions are by no means exclusive and the group welcomes the participation of investors who have inadvertently been omitted from such communications. Investor relations queries can be addressed to the office of the CFO.

Another goal of Group Five's investor and media relations effort is to expose the group's operational management on a controlled basis, so as not to interfere with operational performance. This exposure is essential in communicating the strong management team that exists within the group. It is also a tangible indication to financial decision-makers that Group Five is transparent and comfortable with its operational management communicating with the market.

Finally, Group Five wishes to reiterate that it is not only cognisant of, but supports the JSE rules in relation to imparting equal information to all investors. To this end the group intends, in F2007, to ensure that a synopsis of all investor communications appear on the group's website at the same time as any particular investor or media interaction takes place. Employees and management of Group Five are unable to comment on company-specific issues during its closed periods and only the CEO or CFO are authorised to comment on industry-specific issues during closed periods.

CUSTOMERS

As a key audience of Group Five, the group aims to provide quality service and regular information to this audience. At the start of contracts, a contract plan is agreed with customers with clear delivery targets. Group Five's aim is to keep customers informed as contracts progress and managing directors interact with customers on a regular basis. The group has implemented a structured communications plan throughout the group, with managing directors ensuring its implementation in their business units.

The group has started implementing a CRM programme to drive customer interaction and have put structures in place to become involved with customers earlier in the contract lifecycle. (Refer page 63.)

Targeted communiqué is sent to customers on a regular basis, which includes a magazine called InSite.

GOVERNMENT

The group supports the efforts of the current South African government. Group Five adheres to South Africa's laws and requirements and interacts with government through a range of industry structures.

The group has always viewed government as one of its most important stakeholders. There has recently been growing impatience with the slow pace of delivery on housing and basic services. The government has thus placed delivery of houses, services, transformation of the construction sector and skills development as a priority. In response, Group Five will strive to be a partner to government in delivering on these priorities.

The CEO has played a strong role in conjunction with national government in developing the Construction Charter. The Construction Charter is bound to become a major driver of the transformation of the entire sector.

In addition, the CEO and CFO consulted directly with the relevant government departments to obtain advice and guidance before completing the group's BEE ownership transaction (refer page 148) in September 2005.

During the year, Group Five commenced a formal process to identify at national, provincial and local government level key stakeholders with a view to develop and maintain a working partnership. This will enable Group Five to fully understand the priorities and needs of government at all levels. With these open lines of communication, Group Five aims to offer input and to also position itself to be an effective partner in the delivery of government's priorities.

Local community school girls are invited to participate in the national "Take a Girl Child to Work" day

As stakeholders, accredited training service providers control and monitor all training standards on site

EMPLOYEES, COMMUNITIES AND OTHER TARGETED EXTERNAL AUDIENCES

The table below provides further detail on the group's communication efforts regarding employees, communities and other targeted external audiences.

Audience	Their needs	Group Five's objectives	How objectives are achieved
Permanent employees	• Job security • Reliable systems • Information • Empowerment • Training • Support • Performance management • Safety • Feedback	• Informed workforce • A learning organisation • Cohesive teams • Healthy workforce	• Communication structures • Training programmes • Functioning HR systems • Clearly defined job description and career paths • Group Five Way • Ongoing HIV/AIDS awareness training
Contract workers (limited duration contracts) contributions	• Clearly defined short-term contract work • Safety • Training • Information	• Skills • Manpower • Competent and reliable workers • Healthy workforce	• Paying market-related rates • Recognition of individual capabilities and • Ongoing HIV/AIDS awareness training
Local community members in the areas in which Group Five operates	• Employment • Basic skills training • Boost to the local economy	• Create a pool of semi-skilled workers • Leave behind acquired skills • Use local sub-contractors and suppliers	• Liaison with local employment authorities • Structured training programmes with local sub-contractors and suppliers
Employee representatives (unions)	• Member subscriptions • Recognition agreements	• Good working relationships • Harmonious communications • Mutual respect	• Structures for deductions and payments of subscriptions • Entering into recognised agreements • Structured policies and procedures
Service providers (training)	• People to be trained • To be paid timeously • Form relationships	• Accredited training • Integrated quality control measures • Innovative ideas	• Awareness of latest trends • Maintaining an accredited vendor database • Monitoring standards
SETAs	• Skills development levies to be paid on time • Employees for training • Plans and reports to be submitted on time	• Rebates paid accurately and on time • Accurate record keeping • Recognised accreditation • Maintain recognised standards of training	• Regular two-way flow of information • Meeting reporting requirements • Using SETA accredited training methods

Audience	Their needs	Group Five's objectives	How objectives are achieved
Students (bursars)	• Bona fide degree/diploma • Financial support • Vacation work • Support from Group Five and fellow students	• To develop young talent • Highly qualified graduates • Creation of future managers • Create a pool of professionals for succession planning • Loyalty • Interaction between students	• Identify potential talent • Offer bursaries to qualifying students • Nurture and support bursars • Maintain accurate records of progress • Prepare career paths for graduates • Provide vacation work where possible
Charities	• Financial support • Food, clothing, etc.	• Assist worthy charities • Give employees the opportunity to contribute • Create relationships with community members	• Identify worthwhile charities • Provide financial assistance • Distribute employee donations

(1) *Group Five distributed R468 000 to worthy charities during the year* **(2)** *Support for bursary students includes regular contact through student days, which include site visits*

(1)


(2)

INTRODUCTION

Corporate governance can be defined as the system whereby companies are managed and controlled. For any entity to function properly and effectively, it is essential to have a good system of corporate governance.

Good corporate governance is characterised by seven principles:

- Discipline
- Transparency
- Independence
- Accountability
- Responsibility
- Fairness
- Social responsibility

Group Five has systems, structures and a culture of governance to ensure that it acts responsibly towards all stakeholders, economically, socially and environmentally. The board has an inclusive approach and the interests of all stakeholders are considered in the decision-making process and operations.

THE BOARD AND DIRECTORS

Composition

Group Five is governed by a unitary board of directors, composed of executive and non-executive directors. The board is assisted by board committees, duly formed according to the company's Articles of Association and the King II Report on Corporate Governance (King II).

Group Five's Articles of Association permit a maximum of 15 directors. The names and credentials of directors in office in the year under review are detailed on page 20 of this report. WV Mavimbela was appointed as a non-executive director with effect from 20 February 2006. His appointment follows the group's BEE ownership deal with the iLima Mvela consortium in September 2005. In line with King II, the board has a majority of non-executive directors, with two executive directors and six non-executive directors, five of whom are independent.

Newly appointed directors have the benefit of an induction programme, which is aimed at deepening their understanding of their roles and duties, with particular reference to the JSE Listings Requirements and the principles of King II.

In line with the recommendations of King II and as encompassed in the JSE Listings Requirements, the posts of chairman and chief executive officer are separately held, with a clear division of duties. The chairman's post is held by an independent non-executive director, D Paizes. The chairman's performance is evaluated annually at a board meeting.

The performance of the executive directors is evaluated by the remuneration committee and the performance of the non-executive directors by the chairman, in consultation with the CEO. The board of Group Five conducts an annual evaluation of the board to assess the standard and quality of the board, identifying areas of strength and new strategies to improve weaker areas. It is the intention of the board to extend the evaluation to the respective board committees to establish their effectiveness.

Roles and responsibilities

The board plays a role in determining the group's purpose, values and stakeholders relevant to its business and to develop strategies combining all three elements. The board ensures that procedures are in place to monitor and evaluate the implementation of its strategies, policies, senior management performance criteria and business plans.

Amongst others, the board has the following roles and responsibilities:

- Review and approve the structure of the group to be maintained by the Exco
- Review and approve the financial objectives, plans and actions, including significant capital allocations and expenditure
- Exercise leadership, integrity and judgement, based on fairness, accountability and responsibility
- Identify key risk areas and key performance indicators, which should be regularly monitored, with particular attention given to technology and systems
- Identify and monitor non-financial aspects relevant to the business of the group, particularly SHREQ

Board meetings

The board meets quarterly and on an ad hoc basis as is deemed necessary. In fulfilling their duties, both to the group and its shareholders, the directors aim to act impartially and independently when considering matters of strategy, performance, allocation of resources and ensuring the highest levels of conduct. The board has established a number of committees in which the non-executive directors play an active role and which operate within the defined terms of reference, as laid down by it.

Members of the board are required to disclose any conflict of interest they may have at the quarterly board meetings. During the year under review, no members of the board were involved in any related party transactions with the group. The board deems it necessary to have a formal Conflict of Interest Policy based on the disclosure requirement of sections 234 to 237 of the Companies Act, 1972. The board is currently reviewing a draft Conflict of Interest Policy and intends to adopt this soon.

Remuneration

The board makes recommendations to the shareholders on the remuneration of non-executive directors. The executive directors receive no fees, as they are paid salaries in accordance with their contracts of employment with the group.

The company secretary

The company secretary is appointed by the board. The company secretary's statement of compliance is set out on page 191 of the financial statements.

All the members of the board have access to the services of the company secretary who is responsible to the board for ensuring compliance with procedures and regulations of a statutory nature. All directors are entitled to seek and obtain

Attendance register – Quarterly board meetings

	8 Aug 2005	16 Nov 2005	14 Feb 2006	24 May 2006	Adhoc strategy meeting 26 May 2006
Executive directors					
MH Lomas	✓	✓	✓	✓	✓
PS O'Flaherty	✓	✓	✓	✓	✓
Non-executive directors					
D Paizes	✓	✓	✓	✓	✓
L Chalker	✓	✓	✓	✗	✓
KK Mpinga	✗	✓	✓	✗	✓
MR Maruma	✓	✓	✓	✓	✗
WV Mavimbela (appointed 20 February 2006)	n/a	n/a	by invitation	✓	✓
SG Morris	✓	✓	✓	✓	✓

independent professional advice concerning the affairs of the group at the group's expense, should they believe it would be in the best interest of the group.

The company secretary ensures that in accordance with the pertinent laws, the proceedings and affairs of the directorate, the group itself and, where appropriate, owners of securities within the group, are properly administered. The company secretary is also responsible for alerting directors to any relevant changes to the Companies Act, the Securities Services Act and the JSE Listings Requirements, as well as any other statutory regulations or laws affecting them in their capacity as a director.

During the year under review, AI Townsend resigned as company secretary. She was succeeded by NB Kekana.

BOARD COMMITTEES

The board committees have been established under Article 19 of the company's Articles of Association. Board committees assist the board in discharging its duties and responsibilities and do not in any way mitigate or dissipate the discharge by the board of its duties and responsibilities. The board committees act for the board where authorised and according to its terms of reference. The following standing committees assist the board:

- Audit committee
- Remuneration committee
- SHREQ committee
- Nomination committee
- CSI committee

Audit committee

The role of the audit committee is to assist the board in fulfilling its fiduciary responsibilities in respect of the internal audit department and external auditors. This committee comprises three non-executive directors and two executive directors. The chairman, SG Morris, is a non-executive director. Meetings of the audit committee are held at least three times a year and all directors have an open invitation to these meetings. The chairman reports to the board following each meeting. The audit committee is responsible for the following:

- Financial reporting
- SENS announcements and financial statements

Attendance register – Audit committee meetings

	4 Aug 2005	13 Feb 2006	23 May 2006
Executive directors			
MH Lomas	✓	✓	✓
PS O'Flaherty	✓	✓	✓
Non-executive directors			
SG Morris (Chairman)	✓	✓	✓
KK Mpinga	✓	✓	✗
D Paizes	✓	✓	✓

- Reviewing the effectiveness of the internal audit function
- Reviewing the proposed audit scope and performance of the external auditors
- To review the effectiveness of the system for monitoring compliance with laws and regulations

Members of the audit committee who are non-executive directors receive remuneration in respect of their appointment by the board. The chairman of the committee, in addition to his remuneration as a member, receives a further sum as determined by the board.

Remuneration committee

The main function of the remuneration committee is to ensure that the company's directors and monthly salaried employees are fairly rewarded for their individual contributions to the group's overall performance, with due regard to the interests of the shareholders and the financial and commercial welfare of the company.

The committee comprises three directors, two of whom are independent non-executive directors. The remuneration committee's key areas of focus are the following:

- Executive remuneration policy
- Remuneration for executive directors and senior management
- Annual increase for monthly salaried employees
- Share incentive entitlement
- Non-executive directors' remuneration

Attendance register – Remuneration committee meetings

	20 Sept 2005	14 Nov 2005	7 Dec 2005	10 Feb 2006	28 Mar 2006
Executive directors					
MH Lomas	✗	✓	✓	✓	✓
Non-executive directors					
MR Maruma (Chairman)	✓	✓	✗	✓	✓
SG Morris	n/a	✓	✓	✓	✓
D Paizes	✓	✓	✓	✓	✓

Details of emoluments paid for the year ended 30 June 2006

Executive directors

Name	Salary and car allowance (R'000)		Retirement, medical and other contributions (R'000)		Performance and equity incentives (R'000)		Other (R'000)		Total (R'000)	
	30 June		30 June		30 June		30 June		30 June	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
MH Lomas	2 000	1 856	331	314	3 625	3 400	15	15	5 969	5 585
PS O'Flaherty	1 112	995	210	191	1 823	1 045	28	26	3 173	2 257

Non-executive directors

Fees, services and expenses	30 Jun 2006 R'000	30 Jun 2005 R'000
D Paizes	300	127
L Chalker	565	255
KK Mpinga	100	113
MR Maruma	265	265
SG Morris	133	–
WV Mavimbela (appointed 20 February 2006)	19	–
	1 382	760

Details of directors' share options							
Name of director	Options granted and accepted Opening balance	During the year	Strike price	Options exercised and paid	Total options granted and accepted Closing balance	Strike price	Options vested Closing balance
2005							
MH Lomas	420 000		1,80		420 000	1,80	420 000
	100 000		1,70		100 000	1,70	100 000
	480 000		2,38		480 000	2,38	480 000
	220 000		3,83		220 000	3,83	165 000
	–	200 000	12,55		200 000	12,55	–
PS O'Flaherty	250 000		3,83	(87 500)	162 500	3,83	100 000
	325 000		5,95		325 000	5,95	187 500
	–	125 000	12,55		125 000	12,55	–
	1 670 000	325 000		(87 500)	1 907 500		1 452 500
2006							
MH Lomas	420 000	–	1,80	(420 000)	–	–	–
	100 000	–	1,70	(100 000)	–	–	–
	480 000	–	2,38	(480 000)	–	–	–
	220 000	–	3,83	–	220 000	3,83	220 000
	200 000	–	12,55	–	200 000	12,55	–
PS O'Flaherty	162 500	–	3,83	(100 000)	62 500	3,83	62 500
	325 000	–	5,95	–	325 000	5,95	162 500
	125 000	–	12,55	–	125 000	12,55	–
	2 032 500	–		(1 100 000)	932 500		445 000

Note: The mechanisms of the share option scheme are set out on page 231, note 19.4.

Safety equipment and protective clothing are provided to all employees on site

SHREQ committee

Whilst the board remains ultimately responsible for managing the risks associated with the business and markets within which Group Five operates, a primary responsibility of the SHREQ committee is to assist the board in fulfilling its responsibilities by providing a framework for managing risk throughout the group. The committee consists of two executive directors, two non-executive directors and the group risk officer. Meetings of the SHREQ committee are held twice a year. The key areas of focus for the SHREQ committee are the following:

- Identifying the group's business risks
- Providing a policy framework and methods for the group to identify, analyse and manage risk
- Providing assurance to the board that the strategy set by the board to manage risk operates effectively
- Evaluating whether management has put the appropriate controls in place to manage risk and whether these were communicated to all employees
- Obtaining regular updates from management and the group's legal counsel regarding compliance matters

Attendance register – SHREQ committee meetings

	16 Nov 2005	23 May 2006
Executive directors		
MH Lomas	✓	✓
PS O'Flaherty	✗	✓
Non-executive directors		
KK Mpinga (Chairman)	✓	✗
L Chalker	✓	✗
WV Mavimbela	n/a	n/a
SG Morris	n/a	✓

SG Morris and WV Mavimbela were appointed as non-executive members of the SHREQ committee on 14 February 2006 and 24 May 2006 respectively.

Nomination committee

The function of the nomination committee is to assist the board in ensuring that the procedures for appointments to the board are formal and transparent. It is also the committee's responsibility to ensure continuity in key areas in the event of vacancies arising by monitoring and reviewing the group's succession planning. The nomination committee comprises three members, who are all non-executive directors. The CEO is invited to meetings when this becomes necessary.

Attendance register – Nomination committee meetings

	14 Nov 2005
Non-executive directors	
KK Mpinga (Chairman)	✓
L Chalker	✗
SG Morris	✓

CSI committee

As a corporate citizen of the South African business community, Group Five acknowledges that it must act responsibly towards its stakeholders. The group aims to be a respected citizen by contributing to transformation and subscribes to the concept of self-help and capacity building. The group, through its CSI committee, is fully committed to supporting the social, emotional and physical wellbeing of people through a number of projects sponsored by the group. The committee comprises two non-executive directors, two members of the Exco and the group CSI manager.

Allocation of funds for CSI activities at corporate level are driven by the Group Five board on the recommendation of the executive directors on an annual basis. In line with the requirement of the Construction Charter, the target has increased to 0.25% of annual payroll. For the year under review, Group Five exceeded this target, with a total spend of 0.14% of payroll or R1,4 million.

Attendance register – CSI committee meetings

	5 Aug 2005	18 Nov 2005	10 Feb 2006	23 May 2006
Non-executive directors				
L Chalker (Chairperson)	✓	✓	✓	✗
KK Mpinga	✗	✗	✓	✗

INTRODUCTION

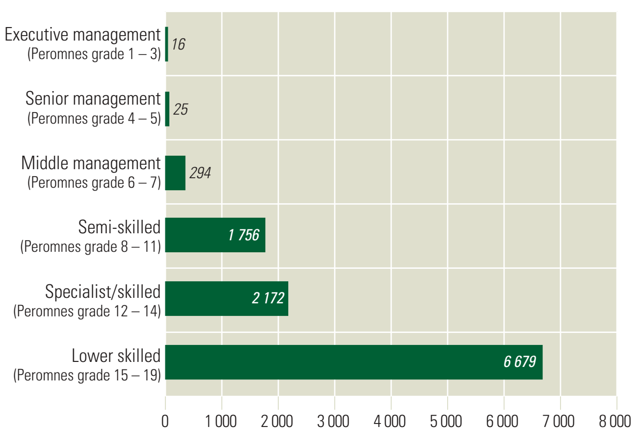
Group Five's HR strategy can be summarised as "procuring, developing and retaining the right people in and for the right jobs".

The collective skills, motivation and performance of Group Five's employees at all levels of the organisation are acknowledged as the intangible factor which will ultimately determine whether or not the group is able to continue to differentiate itself from its competitors and deliver sustainable stakeholder value in the short, medium and longer term.

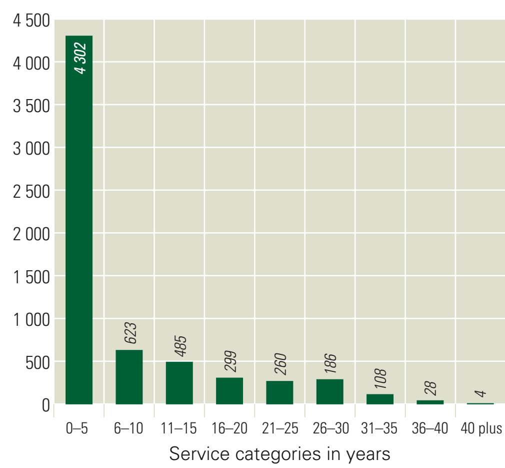
While in concept this strategy is simple, the much publicised skills shortage in the South African construction industry and the challenges of developing a multi-cultural organisation to meet the demands of internationalisation, while addressing the critical need to normalise the demographics of the local workforce, dramatically increases the complexity.

This has demanded that human resources in the group be elevated from what has traditionally been a predominantly administrative support function to a strategic participant, with its activities focused on ensuring that at all levels, the group is able to meet its strategic objectives.

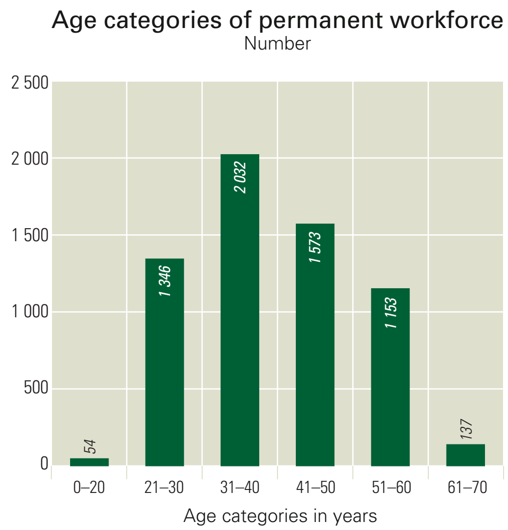
Breakdown between unskilled, semi-skilled and skilled workforce
Total workforce

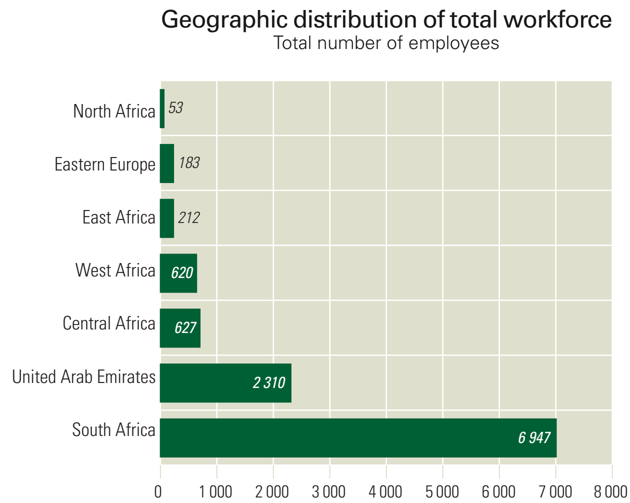


Permanent employees
Years of service



Note: All above numbers as at 30 June 2006



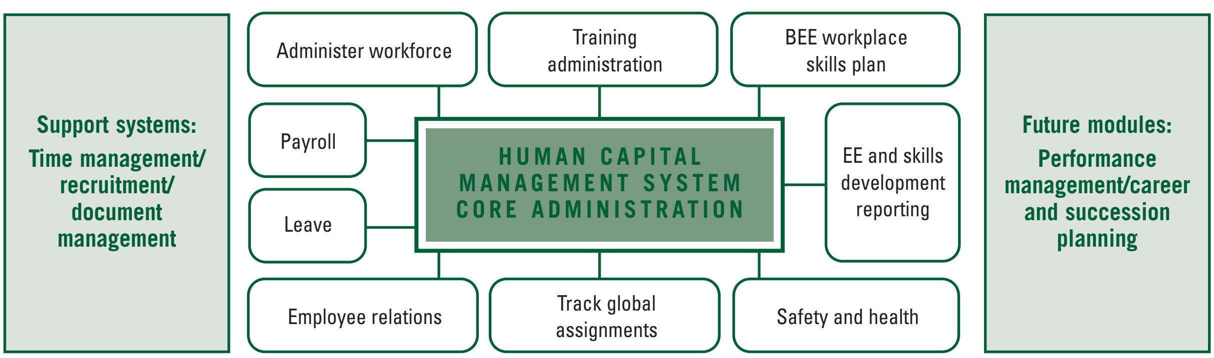


Note: All above numbers as at 30 June 2006

CENTRALISATION AND STANDARDISATION

The group has adopted a number of initiatives in line with The Group Five Way aimed at streamlining and improving the back office functions and facilitating its delivery capacity in the HR arena. These include:

- The introduction of a shared services HR administration services capacity to ensure the efficient and compliant management of the core administration functions, such as payroll administration, employee record keeping and statutory reporting. (Refer page 65.)
- The development of standardised policies and procedures across the group to ensure consistency. This facilitates both the consistent and equitable treatment of employees and enhances the group's ability to establish in new areas as efficiently as possible. (Refer page 60.)
- The implementation of an integrated HCMS solution to facilitate efficient communications, HR processes and information availability in all major centres. (Refer page 66.) This encompasses a suite of solutions and functionalities within an integrated software system which provides integration between employee management, time management and record keeping and payroll administration. The specific software brands selected as part of the enterprise-wide solution are PeopleSoft (HCMS system), Kronos (time and attendance system), Staff CV (internet-based recruitment management system) and Microfile (document storage and management system)



Set out below is a table providing further detail regarding the achievements to date for the HR solutions.

Goal	Objective	Status
Implement an electronic filing system (Microfile)	To facilitate and expedite remote access to employee information/ documentation from anywhere in the world	Completed in December 2005
Implement the following HCMS modules: skills development, training administration, EE, BEE reporting and workplace skills planning and reporting (PeopleSoft)	To make available accurate, reliable and auditable management information to facilitate both management decision-making and reporting requirements	Development completed in June 2006 for business unit roll out in the first quarter of F2007
Implement global assignment tracking HCMS module (PeopleSoft)	To be able to manage the personal, logistical and administrative requirements of employees on international assignments	Development completed in June 2006 for business unit roll out in the first quarter of F2007
Implement labour relations HCMS module (PeopleSoft)	To provide accurate information to facilitate employee relations reporting and allow management to monitor trends across the group and take corrective action where required	Development completed in June 2006 for business unit roll out in the first quarter of F2007
Implement leave administration HCMS module (PeopleSoft)	To facilitate the ease of administration and management of the leave of both expatriate and local employees	Development completed in June 2006 for business unit roll out in the first quarter of F2007
Implement a standardised occupational health and safety management system across the group with subsequent reporting managed via HCMS module (PeopleSoft)	To ensure the consistent application of world-class safety standards and processes across the group, while ensuring that timeous information is available to manage trends and deviations from required standards	The occupational health and safety management and reporting system was rolled out across the group during F2006
Implement an automated time management system on site (Kronos Time Keeping System)	The automation of local and international time and attendance processes and payroll administration processes with the required interface with HCMS	60% of South African-based operations completed by June 2006, with the rest (including international operations) by the end of the second quarter of F2007
Implemented an electronic recruitment management system (StaffCV)	To put in place a single point of access for candidates, both locally and internationally, with a streamlined IT-based administration and candidate data storage capacity	Completed in January 2006

(1)

(1) *Operations are streamlined by the implementation of standardised systems throughout the group*
(2) *PeopleSoft modules provide information on functions that include EE and workplace skills planning*

(2)

INTRODUCTION OF A FOCUSED PERSONNEL PROCUREMENT CAPACITY

To facilitate the procurement of suitable talent, in what is currently a hugely competitive environment in terms of finding skilled resources, Group Five has adopted a focused staff procurement/recruitment strategy. This includes:

- The freeing up of a senior operational HR resource to focus on the management of the processes required to ensure that the capacity to recruit the best available talent and skills required by the group is in place. This recruitment initiative is supported by the employment of dedicated recruitment resources in most of the group's major business units
- The introduction of an online e-recruitment solution (StaffCV) with the associated applicant/talent data storage capacity. This ensures that the group not only has a single access point for applicants, both local and foreign, but that it also has a streamlined and automated response handling facility. In simple terms, this is a web-based facility that enables applicants to apply online from anywhere in the world. The system allows the sifting of large numbers of applicants using a sophisticated word recognition sort capability. The system has also streamlined the movement of resources within the group by automating the internal vacancy procedures
- Entering into strategic partnerships with recruitment service providers, both locally and abroad
- Introducing a number of cutting-edge psychometric evaluations as standard to enhance the success and reliability of our staff selection processes

As part of the group's attempts to secure talent from abroad, the group has set up an international network of preferred supplier agreements with recruitment agencies in the Phillipines, Portugal, Poland, Cyprus, Egypt and India.

Group Five has also undertaken recruitment drives in the UK and Germany. While the obtaining of work permits locally and abroad remains a challenge, the group has been encouraged by the quality of resources available in all these areas.

While the group believes that it has the competencies and human capacity to support current operational requirements, the procurement of the right people to allow it to be able to grow will be a significant challenge and as such will remain a strategic priority for the group.

DEVELOPING AND MAINTAINING A COMPETITIVE REMUNERATION STRATEGY AND KNOWLEDGE BASE

The group acknowledges that a well-researched, competitive remuneration strategy is a key aspect in facilitating the recruitment and retention of core skills. As such, the group continues to enhance its research capacity and the subsequent implementation of competitive, but sound, remuneration practices.

This involves:

- The empowerment of the board's remuneration committee by supplying them with detailed remuneration indicators on which to base decisions in respect of the group's remuneration guidelines and policies
- The automation of internal survey processes which has made it easier for the group to participate in a broader range of external remuneration surveys and processes, both locally and abroad
- The adoption of an internationally benchmarked remuneration and expatriate administration policy and remuneration practices (in consultation and collaboration with internationally recognised service providers) which allows the group to stay competitive in this arena and ensures that it responds timeously to changes in inflation, exchange rates and spending patterns
- The launch of the new management share appreciation rights scheme, aimed at ensuring that the group attracts and retains the best available talent from the middle and senior management cadre. (Refer page 231.)
- The launch of the black management share scheme aimed at ensuring the attraction and retention of the best available talent from the ranks of the previously disadvantaged. (Refer page 231.)
- Introducing a more competitive total cost to company remuneration structure for staff with a view to ensuring

easier and more favourable comparison with international and local remuneration levels. The intention is to complete and introduce this by the third quarter of F2007

DEVELOPING AND RETAINING KEY EMPLOYEES

Notwithstanding the critical need for competitive remuneration policies and practices, the group believes that an organisation's best opportunity to attract and retain core talent/key staff is to be found in a combination of the following strategic HR interventions:

- Establishing a culture where performance is recognised and rewarded
- Establishing a common culture and sense of community and accepted behaviour
- Offering sustainable career development opportunities

These elements and the group strategy to achieve them are discussed in more detail in the next few pages.

Recognising and rewarding performance

This key area is addressed as follows:

- *Ensuring that employees know exactly what is expected of them*

  This is achieved through careful workflow design and the standardisation of company procedures and requirements:

  - All major Construction business units have or are in the process of analysing and documenting contract lifecycle procedures to ensure that employees are aware of their performance requirements and accountabilities at each step in the contract delivery process. (Refer page 63.)
  - A pilot process has been launched in the Building business unit to ensure that workflow processes are optimised and that all barriers to performance are removed (integrated performance management system (IPMS)). (Refer page 64.) This includes a detailed analysis of the various inputs received from other departments and employees on each member of a team and the impact of their outputs on other team members and other departments. Through highlighting these interdependencies and addressing interdepartmental constraints and internal customer focus/awareness, a delivery culture is created. While early days, the results of this process have been encouraging and once evaluated, it is the intention to roll this process out in the rest of the group
  - All employees have or are in the process of having their individual performance expectations adapted to clear performance and competency requirements

- *Ensuring that employees receive objective and timeous feedback on their performance*

  - It is a group requirement that all employees receive a comprehensive performance appraisal at least once a year – around or before September
    - Operational employees usually receive at least two appraisals during the lifecycle of a contract. The first takes place after the initial stages of the contract have been completed to ensure they are on track to deliver the contract and the second at the end of the contract to ensure that good or bad performance is either recognised or addressed and that an employee is given an opportunity to learn from the process
  - It is the group's intention to commence the roll out of the PeopleSoft (HCMS) performance management module during the course of F2007 to automate the administration of what can often be a laborious process

- *Visibly and consistently linking performance to rewards*

  - Remuneration levels, and remuneration increases throughout the group, are based on an assessment of an employee's performance and competence in terms of and against organisational expectations
  - The group's incentive schemes are all linked to a combination of delivery in terms of stakeholder value and, on an increasing level, to the individual's contribution

Creating a sense of community

This element, while often underestimated, creates the motivation for employees to achieve above average performance on a sustainable basis. Key aspects of this strategy are:

- *The development of a strong brand identity*

  - Almost ten years ago the group recognised the need for a strong single brand identity. At the time the group had numerous different brands such as Goldstein, Stevenson, Savage and Lovemore, CMGM, Combrink and RH Morris. While these different brands reflected the rich heritage of the group, they also served to dilute the Group Five corporate brand and as a result encouraged a culture of separatism and inter-business unit rivalries. This seriously impacted the opportunity to optimise the free flow of resources and potential for synergy across the group. By adopting a single brand and rationalising and merging a number of potentially competing business units, the group has now reached a point where all its employees can identify with a common brand within a simplified organisational structure. (Refer page 12.)

- *The development of a clear, well-communicated and accepted vision, values and culture in the organisation*

  - This is encapsulated in the group in what is known as The Group Five Way. (Refer page 60.) A new vision has been finalised and a process of communicating The Group Five Way, the efficiency drives and each staff member's role in this regard will be rolled out during the first half of F2007

- *Defined behavioural norms*

  - The group's Code of Ethics and acceptable behaviours were published and distributed across the group in 2004. (Refer page 75.) With a view to dealing fairly and consistently with non-compliance, the group also redefined and rolled out the group disciplinary code and procedures in line with current legislation and best practice during the past financial year. More work is required to entrench these uniformly across the group. This will receive focus in F2007

- *Emphasis on the areas that make a difference to the employees' experience of working in the group*

  - This includes informal recognition, regular social interaction and recognition of the importance of the employee and not only performance-measured resources. Due to the diverse nature of the business units, the group has a way to go in this area. If this receives sustained focus, the group believes it will significantly impact on its ability to retain motivated employees and thereby ensure consistent delivery. A focused programme of internal communications to ensure staff are motivated and understand their role in the group's business drivers will be rolled out over the next year

- *Creating a sustainable career path and leadership development opportunities*

  - The group recognises that to expect talented employees to remain with the organisation, it has to be in a position to deliver consistently on their career development aspirations. This requires constant feedback on where an employee fits into the organisation and where the organisation sees that employee going within the short to medium term

  - While this is typically dealt with in the context of the performance appraisal process, for this to be truly effective requires the appraiser to be empowered to contract with the employee in terms of the kind of training required to improve his or her competence and/or performance. To this end, the group has adopted a talent management matrix, first developed by Anglo American, which requires that line management reaches consensus on the employee's position in terms of both performance and upward mobility potential and a broad strategy agreed prior to engaging with the employee

  - As a critical new initiative, the group has taken the strategic decision to address its leadership and core competency requirements through the in-house Group Five Academy. (Refer page 64.) This will allow the group to address the requirements of obtaining the correct demographic composition at all levels. The group acknowledges that it is critical for it to be able to address its employees' training and development needs around two specific areas:

    - *Competency development*

      Interventions designed to equip employees with the skills, knowledge and behavioural competencies required to function within their specific working environment

- *Leadership development*

  Interventions designed to provide upwardly mobile employees of all cultural and ethnic backgrounds with the inputs and programmes they require to accelerate the development of their full potential, thereby ensuring that the group is able to meet its future leadership requirements

EMPLOYEE WELLNESS

The group has a wide range of initiatives in terms of employee wellness. This includes the management of HIV/AIDS and the management of occupational diseases. The management of occupational diseases includes the enforcement of annual medical examinations for all directors and expatriate employees. The practice of pre-employment and post-employment medical examinations and regular interim check-ups are also enforced in all areas where a risk of occupational illness has been identified. (Refer page 167.)

Peer educators are trained to inform colleagues, family and community members on HIV/AIDS awareness

The group has also engaged a trauma counselling service to ensure that employees who face personal crises, such as highjacking and bereavement, receive professional assistance.

Below follows a report on how HIV/AIDS is addressed within the group.

The Group Five HIV/AIDS programme

Group Five recognises the value of its employees and aims to promote a supportive environment for HIV infected employees and/or employees with AIDS or any other life-threatening disease.

The group has a centrally-driven HIV/AIDS programme, which aims to:

- Implement and maintain a prevention strategy
- Create a well-informed workforce
- Evaluate and minimise the potential risk of HIV/AIDS and other life-threatening diseases to the group
- Encourage employees to participate in the group's prevalence and voluntary counselling and testing
- Provide a supportive work environment for employees
- Focus on creating awareness and education programmes and provide counselling services

Prevention is the highest priority in the group's HIV/AIDS programme. Effective strategies to turn the epidemic around involve a combination of education, prevention and treatment that go hand-in-hand with the prevention of other sexually transmitted infections (STIs). These strategies call for consultation with employees and their representatives and have the backing of the group's leadership.

Set out below is Group Five's HIV/AIDS roadmap:

Initiative	Description	Objective	Status
HIV prevalence testing "Know your status campaign"	To determine the group's HIV prevalence rate	Benchmark workforce tested against industry and national figures	Completed and statistics available. (Refer page 142)
Knowledge, attitude and practices survey (KAPS)	To determine knowledge, attitude and practices of employees	Document data to be used for training	Completed. Results of survey used for training purposes
Peer group educator training	To work towards having one trained peer educator for every 50 employees in the group	Increase number of educators trained Increase number of training sessions per educator	To date, 135 peer educators have been trained, which is one for every 81 employees
Policy statement	A policy statement endorsing the company's commitment in respect of HIV/AIDS for distribution to all business units. To be displayed alongside the group's safety and quality policies	Portray commitment from the top	Formally adopted by Group Five's management committee in 2004 Policy statement signed by all managing directors and displayed
Group steering committee	Committee to focus on strategic issues and to coordinate group initiatives	Committee to be functioning effectively as detailed in HIV/AIDS policy and procedures guidelines	Included as a function of board CSI committee. Quarterly meetings held under chairmanship of Group Five board member
Communications structure	Implementation of communications process	News and information to be disseminated to all employees	In place. In Touch magazine/ brochures/briefs used Internal presentations
Management training	Training of business units' senior management teams	Training to address the impact of the disease on the business, legal compliance, how to deal with HIV+ employees, etc	Ongoing Managing directors and their teams have had basic training Legal compliance and risk assessment training in the pipeline
Business unit task team	The task team is responsible for the implementation of the HIV/AIDS policies and procedures	To be set up in accordance with policies and headed by a senior line manager	Implemented Incorporated as a function of business unit's EE/training forum
Legal compliance and administration	Policies and procedures to ensure legal compliance Recording of absenteeism Submission of disability and death claims	Policies and procedures to be available	Ongoing Training provided to relevant employees Policies and procedures are available

(1)

(1) *Peer educators are kept up-to-date with latest training methods* **(2)** *HIV/AIDS awareness training using specially designed flipcharts* **(3)** *The initial VCT programme, conducted in 2005, will be repeated in 18 to 24 months*

(2)

(3)

Indicator	Description	Objective	Status
Awareness and information	Posters, newsclips on notice boards Pamphlets distributed Messages on payslips Observing commemorative days	Posters to be displayed Pamphlets to be available Participation at all levels to take place	Ongoing Peer educators are responsible for awareness and communication
General staff training programmes	Training sessions conducted by service providers To reach all employees – permanent, limited duration contract employees and sub-contractors	Training to be conducted according to plan Training to be recorded in line with training policy Quarterly statistics to be provided at business unit board meetings	Ongoing Awareness training undertaken by peer educators Peer educators trained by accredited service providers Case studies done

The Group Five "know your status" campaign

Essential to the management of HIV/AIDS in the group is a sound understanding of the disease and the potential impact on the business. The importance of accessible VCT, and the treatment options, is the backbone of the group's "know your status" campaign.

The first VCT programme was conducted during 2005 and a total of 3 336 employees were tested. The programme will be repeated in 18 to 24 months. The ongoing monitoring and testing will serve the dual function of creating awareness of the disease and encouraging VCT, as well as enabling the group to assess the related risks.

The CETA and Group Five entered into an agreement to fund prevalence testing throughout the group.

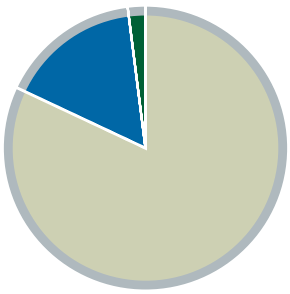
Wits Health Consortium from the University of the Witwatersrand was appointed to conduct the testing and sample analysis phases of the survey and CLS, an accredited laboratory, was appointed to do the laboratory testing. The university gave sound academic backing to the programme and the related statistical data.

The report on the results of the HIV testing conducted at the various business units and sites in the group met the following objectives:

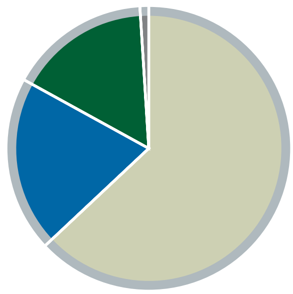
- Determined the HIV prevalence amongst Group Five employees
- Established the HIV prevalence according to job category in the business
- Established the gender specific HIV prevalence in the business
- Established site specific HIV prevalence in the business
- Established HIV prevalence according to age levels in the business
- Provided information to help formulate a strategy of prevention and treatment

Set out below are the results of the testing undertaken.

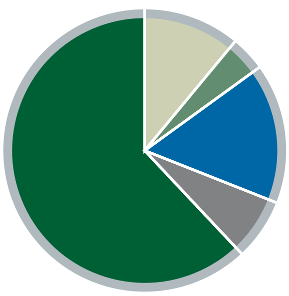
Sample by gender



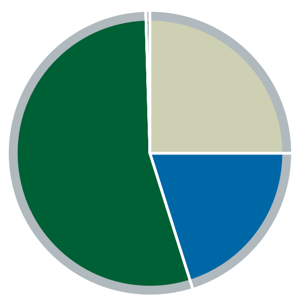
Sample by type of employee category



Sample by province



Test results (prevalence)



Category of employee	Number tested	Positive	% Positive
Limited duration contract workers	652	159	24
Sub-contractor	544	128	24
Permanent employees	2 123	346	16
Not indicated	17	3	18
Total	3 336	636	19

**Total workforce as at December 2005 was 10 120 – 33% of workforce tested*

Group Five's response to the test results

- Permanent salaried staff are covered by the group's medical aid scheme and have the option of registering on the Aid for AIDS programme
- Wage earners have the option of joining the medical aid scheme
- Support is provided to HIV+ employees through the peer group educator programme
- Non-medical aid employees and limited duration contract employees are assisted to register on programmes at provincial hospitals and clinics
- All employees are encouraged to join the wellness programme and use immune-boosting supplements
- HIV+ employees have the option of using company sponsored counselling services
- Employees who test negative are encouraged to remain that way

Peer educator training programme

Group Five has accepted that the most effective way of reaching and supporting the workforce is through the identification and training of peer educators. These are volunteers from various levels in the group who agree to become the HIV/AIDS flag bearers and a support base for their specific business units or construction sites. These educators continue with their day-to-day job function and in addition offer the following to their peers:

- A source of knowledge based on facts
- A thorough understanding of the group's policies in the areas pertaining to the disease
- A first line support for infected employees
- A referral base, advising employees of available services

"It wasn't until I realised that I spent every weekend at funerals in my neighbourhood that I became aware of this deadly disease HIV/AIDS. Each time I asked what the cause of death was, I was told it was pneumonia or TB. When I questioned how it came about that these diseases that have always been around have now become so deadly, I could not get any answers.

Juliett Mokgethi

For me these questions were answered when Group Five introduced HIV/AIDS training. A call for people to be trained as peer educators was made and I jumped at the chance, as I really wanted to learn more about this disease which can also take my life one day. I also wanted to educate my colleagues, my family and people in my community, who are either infected or affected by the virus.

At the training I learnt that one can actually live a healthy, normal life with HIV and that it should be treated like any other chronic disease, like diabetes and cancer. I also learnt that it is not contagious and one cannot tell that someone is HIV positive by simply by looking at them.

Most importantly, I learnt that one should not discriminate against our colleagues who are infected. Instead we should give them the support they need to continue working and being productive.

I am happy because I am training people and passing on correct information and I am sure that some are benefiting from these training sessions. I also refer colleagues to organisations that provide counselling and support.

My wish is to prolong or save at least one person's life. There are so may people dying of this dreaded disease every day."

HIV/AIDS expenditure

As detailed previously, the CETA and Group Five entered into an agreement to conduct prevalence testing throughout the group. The results established the prevalence rate of HIV infection in Group Five and provided an indication of the prevalence rate in the construction industry. The exercise was jointly funded with the CETA and an amount of R2,1 million was spent on conducting a KAP survey and testing of 3 337 employees. For the year under review, an amount of R360 000 was spent on training and prevention programmes.

Programme to assist members who suffer from HIV/AIDS

Effort is being made to encourage employees to join the company's medical aid scheme. Membership of the scheme is compulsory for salaried staff, but optional for hourly-paid employees. The medical aid scheme offers a comprehensive HIV/AIDS programme for members and their dependants.

The majority of Group Five's employees are employed on a limited duration contract basis, which prevents them from medical aid membership. However, the service providers employed to conduct VCT are under instruction to provide these employees with support until such time as they are registered on a health services programme in the area of their choice.

Provision of anti-retrovirals

Medical aid members have access to anti-retrovirals that are provided as part of the scheme's HIV/AIDS programme. Limited duration contract workers do not have this facility and the company has taken the decision not to provide the drugs, as there is no long-term relationship with this category of employee. The group believes that short-term provision of anti-retrovirals to these employees only while they are employed by Group Five will be highly irresponsible on the part of the company. However, these employees are assisted to get help at public hospitals.

The way forward

→ Senior management commitment

Critical to the success of the HIV/AIDS initiatives amongst the workforce is the commitment of management at all levels in the group. Without managers taking ownership of these initiatives within the areas under their authority and driving the process, such initiatives are doomed for failure from the outset. At operational level it is important that managers internalise the impact that HIV/AIDS could have on their employees and on their production targets.

All managing directors and their business unit management teams have undergone basic training in this regard. Further training and education sessions will be held.

To demonstrate senior management's commitment, the following initiatives have been agreed and will be implemented with immediate effect:

- A full-time peer educator is to be appointed to ensure that the HIV/AIDS programme is conducted throughout the group. The group peer educator will be responsible for training of peer educators, assisting with the planning, scheduling and recording of training on all sites
- HIV/AIDS will become a standard agenda item for all business unit quarterly board meetings. Business units will be required to report on:
  - Number of peer educators trained in the quarter
  - Number of employees trained
  - HIV/AIDS programmes initiated in the quarter
  - The status of the prevention strategies, like condom distribution, poster displays, observing commemorative days, etc
- Guest speakers from other companies will be invited to address management meetings to keep managers updated on current trends. Findings will be used to measure programmes and to make adjustments where necessary

→ Risk assessments

For Group Five to assess its exposure to the disease, for a reasonable period into the future, surveys to assess the risks will be conducted on a regular basis. An added advantage is that the prevalence surveys will serve to increase awareness of HIV/AIDS and promote VCT.

- **Policy review and development**

  The group's HIV/AIDS policy will be regularly reviewed to ensure that it is up-to-date and relevant. The policy will be communicated to all levels in the group and will incorporate an assessment of its effectiveness by conducting a mini-survey among employees to:

  - Establish the levels of knowledge of the policy and its contents
  - The reasons for its effectiveness or otherwise

- **Education and training**

  Group Five will continue with the adoption of the following approach with regard to HIV/AIDS education and training during F2007:

  - Education and training of new employees, which will be included in the group's induction programme
  - Education and training of the workforce through an effective peer educator training programme
  - Education and training of the workforce on how to work with people living with HIV/AIDS
  - Education and training of managers on how to manage subordinates who choose to disclose their HIV status
  - Education and training of the workforce to de-stigmatise the disease, which will encourage those infected to seek treatment more openly and as such will assist in curtailing the spread of the disease

- **A drive for voluntary counselling and testing**

  It is accepted that knowing one's status is one of the most powerful behavioural tools to change, as it combines one-on-one discussions with a trained counsellor and the factual evidence of the test.

  The benefits for HIV negative employees may be even greater as the awareness and education that result from VCT will encourage them to remain negative.

EMPLOYEE RELATIONS

Group Five's employee relations philosophy is driven by a joint commitment towards continuous improvement and development, employee personal growth and wellbeing, and business prosperity for the group, its shareholders, management and staff. This is achieved through entering into productive relationships and the creation of a competitive performance culture based on a common approach, which will ensure that collective and individual objectives are achieved.

To achieve these objectives, the group subscribes to the following principles:

- Freedom of association
- Provision of organisational rights
- Creation and utilisation of collective bargaining mechanisms, in-house and through participation at industry level
- Participation in the workplace
- Resolving labour disputes
- Pursuance with management of sound relationships between role-players

Human rights

The group is committed to observing the constitutional rights of employees. These principles have been included in all employee relations policies and procedures.

Worker representatives participate actively in processes where decisions are made that may affect their working lives. Such participation occurs in management shop steward meetings, equity forums and through other consultation and negotiation forums.

The group has a benchmarked industrial relations policy, which encapsulates all aspects envisaged in the Labour Relations Act. This includes a comprehensive disciplinary code and procedure that details a step-by-step process to ensure both compliance in terms of the law and in terms of protecting the employee's procedural and organisational rights. These include the right to a fair and timeous hearing, the right to representation, the right to call and cross-examine witnesses and the right to appeal.

The group encourages employees to make use of the formal grievance procedure without fear of retaliation, victimisation and discrimination.

In the group operations where changes and restructuring take place, extensive consultations are conducted with representative unions. Consensus is reached on all aspects, including those provided for in labour legislation.

The group remains committed to ensuring compliance with all legal requirements within the countries in which it operates. It seeks to treat each employee with dignity and respect at all times. To this end, in the period under review, collective labour agreements have been concluded in Tanzania and Zambia with local trade unions.

Worker participation and trade union relations

Group Five maintains interactive and constructive relationships with all representative trade unions in South Africa and over-border, throughout all its operations. Representative unions enjoy organisational rights, as well as consultative and negotiation powers on issues of mutual interest. In operations with no union representation, applicable consultative structures have been implemented. Both permanent and limited duration contract employees have the right to belong to trade unions of their choice and participate in its affairs. Currently, 2 540 (23.21%) of the group's employees are members of unions.

Collective bargaining

Collective bargaining in the group takes place both at industry and operational level. The group plays an active role in industry bargaining forums established and maintained by industry bodies, such as SAFCEC, SEIFSA and the VBF.

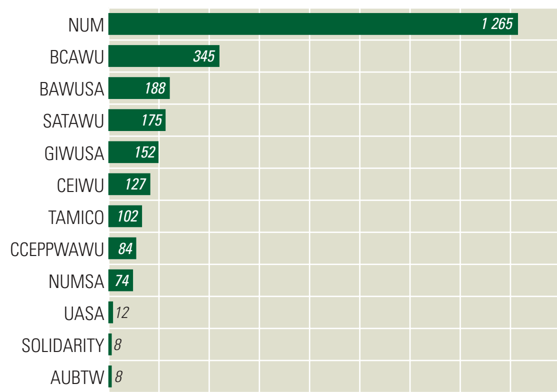
Joint forums with worker representation have been established at operational level to discuss and consult on various issues, including productivity, health and safety and accommodation.

During the year, the group's operations lost 54 642 man hours due to industrial action and national protest action. This amounted to 0.22% loss of all hours worked.

Employee relations practices and procedures

Procedures and structures are in place to ensure fair regulation of employment conditions and standards. These are regularly reviewed to institutionalise employee relations in a mutually satisfactory way, resulting in productive relationships, co-determination and achievement of common goals.

Total union representation as at June 2006
Number of union members



NUM	National Union of Mineworkers
BCAWU	Building Construction and Allied Workers Union
BAWUSA	Building Wood and Allied Workers Union of South Africa
SATAWU	South African Transport and Allied Workers Union
GIWUSA	General Industries Workers Union of South Africa
CEIWU	Construction and Engineering Industrial Workers Union
TAMICO	Tanzania Mines and Construction Workers Union
CCEPPWAWU	Chemical Energy Paper Printing Wood and Allied Workers Union
NUMSA	National Union of Metal Workers of South Africa
UASA	United Association of South Africa
SOLIDARITY	MWU Solidarity
AUBTW	Amalgamated Union of Building Trade Workers

Education and training programmes are currently being presented to management and supervisory levels to develop the necessary competencies to fulfil their respective roles more effectively.

During the year under review, 71 wrongful termination and unfair labour practice claims were resolved under the auspices of the Commission for Conciliation, Mediation and Arbitration. A review of all potential claims is conducted regularly to ensure speedy and effective resolution.

Child and forced labour policy

The group recognises the constitutional rights of children and the minimum standards provided for in labour legislation and as such the use of any form of child labour is expressly prohibited.

The group also recognises the rights of all citizens to freely associate or disassociate with any organisation, structure and practice and as such rejects all forms of forced labour. The principles related to freedom of association are encapsulated in the group's employee relations policy.

Continuous improvement

Following the review and update of all the employee relations' policies and procedures to align with the requirements of HCMS, the roll out in business units is being conducted.

To ensure that the group operations remain compliant, information required to understand the labour legislation, regulatory and practice environment in the countries in which it operates and intends to operate in future is currently being updated.

This will ensure that all new contracts are compliant with the statutes and regulations and structured in an efficient way, ensuring that all risks have been identified and mitigated.

Regular audits will be conducted in all the operations to ensure compliance with the relevant employee relations policies and procedures.

The group's BEE shareholding scheme benefits over 90% of permanent employees

Set out below is an analysis of the group's achievements to date against both the dti BEE scorecard and the Construction Charter scorecard.

		Construction Charter scorecard(1)		DTI scorecard(2)	
Core components	BEE elements	Weighting %	Score %	Weighting %	Score %
Direct empowerment	Ownership	25	14.83	20	15.00
	Board management	10	4.85	10	2.30
HR development	Senior management	10	4.51	10	3.50
	Skills development	15	8.30	20	17.40
Indirect empowerment	Preferential procurement	20	4.20	20	5.60
	Enterprise development	15	10.00	10	10.00
	CSI	5	4.00	10	10.00
Total		100	50.69	100	63.68

Notes:
(1) Self-evaluation (30 June 2006)
(2) As evaluated by rating agency Empowerdex (March 2006)

OWNERSHIP

On 29 September 2005, shareholders approved a BEE ownership transaction that introduced black people directly into the shareholding of the company.

The BEE transaction consisted of three components, namely:

- A broad-based employee scheme, comprising an aggregate 0.6% of the enlarged share capital of the company
- A black management share scheme comprising 3.9% of the enlarged share capital of the company
- The iLima Mvela ownership transaction comprising 21.6% of the enlarged share capital of the company

The BEE ownership transaction is summarised in the table below:

	Total		
	No. of shares	Transaction value (1) R'000	Shareholding (post issue of new shares)
Employee schemes	4 366 109	69 989	4.5%
Broad-based scheme	575 000	9 217	0.6%
Black management scheme	3 791 109	60 772	3.9%
The participants jointly	20 957 325	335 946	21.6%
iLima	10 478 662	167 973	10.8%
Mvela	10 478 662	167 973	10.8%
Total	25 323 434	405 935	26.1%

(1) Based on a share price of 16,03 cents per share being the 30-day VWAP (ex dividend) as at the close of business on 4 August 2005

An overview of the participants in the BEE transaction is set out below:

The employee schemes

The employee schemes described below are for the benefit of Group Five permanent employees who are employed by Group Five or its wholly-owned businesses. None of the current directors of Group Five are beneficiaries of the black management scheme, or the broad-based scheme. As a result of this, it is envisaged that over 90% of all permanent employees of Group Five and its wholly-owned subsidiaries will eventually have contractual rights to own Group Five shares.

- The black management scheme (3.9% of enlarged share capital)

  The black management scheme is for the benefit of select current and future senior black management of Group Five

- The broad-based scheme (0.6% of enlarged share capital)

  The broad-based scheme is for the benefit of the permanent employees of Group Five who do not participate in the black management scheme. This scheme therefore operates for the benefit of both black and white permanent employees of Group Five and its wholly-owned subsidiaries, who at date of allocation on 1 October 2005 numbered 3 969, of whom approximately 90% were black. The allocation was made by means of a once-off issue of an aggregate of 575 000 Group Five shares for no consideration and with no vesting conditions

The participants

- The iLima group of companies (10.8% of enlarged share capital)

  The iLima group of companies (of which iLima Projects (Pty) Ltd is a member) is a diversified BEE group of companies and trusts that are led and managed by previously disadvantaged individuals. It has interests in construction, mining, financial services and telecommunications and is a member of the Bombela consortium which has been awarded the rights to the Gautrain project. The iLima group of companies represents the interests of:

  - Youth in the form of the Qulani Trust
  - Women involved in construction in the Yanda development

- The Zeranza Trust
- Black entrepreneurs with interests in a black-controlled infrastructure development company

The Mvelaphanda group of companies (10.8% of enlarged share capital)

On 13 December 2004 the merger of the business and assets of Mvelaphanda Holdings and Rebserve Holdings Limited was implemented, and Mvela became the controlling shareholder of Rebserve. Rebserve changed its name to Mvelaphanda and has become a broad-based, black-controlled and managed diversified group. Mvela has combined the stature and reputation of Mvela's brand and team, as well as the prospects of substantial BEE deal flow, with the cash-generative base and proven operational and transactional skills of the former Rebserve and its management, all of whom have been retained by the group. The strategy of the group is to be invested in businesses covering a range of facilities management, technical and professional and support services extending countrywide. Mvela is listed on the JSE in the Industrial Services sector

Overview of the selection process of the participants

Group Five embarked on the process of selecting the participants in May 2004. Initially more than 20 consortiums were identified that furnished Group Five with detailed information. Four potential participants were selected to present further information to Group Five's selection committee before the participants were finally selected. In selecting the participants, Group Five assessed all potential participants against the following criteria:

- Construction/infrastructure development focus – only parties whose core business included construction and/or infrastructure development were selected
- Required attributes of key individuals within the participants – Group Five wanted business people with proven networking ability
- Organisations had to be stable, have a good track record and good future potential
- Ability to add value had to be present
- Group Five wanted to partner groupings who would work well with management and who shared a common vision and values. Group Five has a track record with both iLima and Mvela. For example, Group Five had partnered iLima Projects on the Engcobo to Edutywa road development in the Eastern Cape, completed in March 2005. Previous interactions between Group Five and Mvela, particularly in Africa, provided Group Five with further comfort in this regard
- Group Five wanted partners who would aid in the overall transformation of Group Five. The enterprise development agreement entered into with iLima Projects (refer page 163) is a unique feature of the relationship and addresses areas such as skills transfer and EE
- Only South African companies were selected

The mechanics of the black management scheme are set out on page 231 and the technical terms of the iLima Mvela transaction are set out below:

- In terms of an initial subscription agreement, on 1 November 2005 each participant subscribed for 10 478 662 Group Five shares (being subscription shares), at the subscription price of one cent per share
- In terms of the internal funding mechanism, the Group Five shares were notionally issued at a 10% discount to the reference price of R16,03 per Group Five share, which equated to approximately R14,43 per Group Five share. These shares are notionally subject to a fixed funding rate over the approximate seven-year term of the scheme of 12% nominal per annum, compounded annually
- In terms of the distribution subscription obligation (contained within the agreement), each participant is obliged to utilise the proceeds of all the cash distributions (and the proceeds of the distributions in specie converted to cash) received by such participant from Group Five by virtue of such participant's holding of Group Five shares, during the period between 1 November 2005 and the end date, to subscribe for Group Five shares at the market value thereof as at the date of such subscription

- In terms of a forward sale agreement, each participant will sell to Group Five, with effect from 31 December 2013 (the end date), the number of Group Five shares held by such participant, determined with reference to the formula set out below, at a purchase price of one cent per Group Five share

$$\text{Number of Forward Sale Shares} = \frac{\text{Notional Funding Terminal Amount}}{\text{Market Value per Group Five Share}}$$

  However, where the end date occurs as a result of an event of default in relation to such participant (as detailed in the aforementioned agreements) the number of forward sale shares shall be equal to the total number of subscription shares held by such participant on the end date

- In terms of a further subscription right (contained within the abovementioned agreements), each participant shall have the right, to be exercised during the 30 business day period succeeding the end date, on a single occasion and provided that no event of default has occurred in relation to such participant (as detailed in the subscription and sale agreements), to subscribe for up to the number of Group Five shares that are equal to the number of Group Five shares sold by such participant to Group Five in terms of the forward sale. These shares will be issued at a purchase price per Group Five share, equal to the market value thereof as at the date of exercise of the further subscription right by such participant

MANAGEMENT

In terms of both the dti BEE codes of conduct and the Construction Charter's definitions, management scoring is split between that at board level and senior management (Exco and Manco).

Group Five currently has one black female participant at this level, namely the company secretary Mrs NB Kekana (which produces a higher level of scoring in terms of the BEE scorecards), and four black males in these categories, namely Messrs MR Maruma, KK Mpinga, WV Mavimbela and M Nkala. Refer page 20 for CVs of these individuals.

EMPLOYMENT EQUITY

Group Five is committed to promoting equity and diversity throughout the group, with a core focus on its South African operations where effort is made to increase the percentage of previously disadvantaged individuals at management levels. A Peromnes grading system is used for all employees categorising from 1 for the senior executives to 19 for the unskilled labourer. (Refer page 152 for further detail of this categorisation system.)

The group's equity policy expressly prohibits any form of unfair discrimination. The group conducted a detailed audit of all its policies and procedures to ensure they are free from discrimination. Where discriminatory practices were revealed, corrective action has been taken, including disciplinary action, where required. EE forums monitor employment practices on an ongoing basis to ensure that no form of unfair discrimination takes place.

Set out below are the group's initiatives regarding employment equity.

Initiative	Objective	Progress
Two targets: • Targets set by the business units in terms of the Employment Act, based on mirroring the demographics of the country • EE targets of the Construction Charter	• Promoting equity and diversity throughout the group • Increase the percentage of previously disadvantaged individuals at management levels	• Equitable representation at junior management and at the lower levels achieved • Fair amount of progress has been made towards meeting employment equity targets at middle management • Targets at senior level have not been met – several initiatives in place to address this

Explanation of different grading systems*

Semantic Scale		Patterson	Peromnes	Hay	Castellion
Top management	F	F	1++		14
			1+		
Senior management	E	E UPPER	1	1	13
			2		
		E LOWER	3	2	
Professionally qualified, experienced specialists and mid-management	D	D UPPER	4	3	12
			5		11
		D LOWER	6	4	10
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	C	C UPPER	7	5	9
			8	6	
			9	6A	
		C LOWER	10	7	8
			11	8	
			12		
Semi-skilled and discretionary decision-making	B	B UPPER	13	9	7
			14	10	6
		B LOWER	15	11	5
			16		4
Unskilled and defined decision-making	A	A	17	12	3
			18	13	2
			19		1

*Group Five uses Peromnes

The four grading systems referred to in the table are the four most common factor-based job ranking systems used in South Africa. These have been recognised by the Department of Labour as being appropriate for the ranking of positions at different levels in terms of seniority. For ease of reference, the principles underlying each of these systems are also included here.

Peromnes: The Peromnes evaluation method – which Group Five uses – scores a position on a number of separate factors, including problem solving, consequence of errors of judgment, pressure of work, knowledge required, job impact, educational qualifications, training and experience. The aggregate score achieved is applied to a sliding scale to determine the effective job grade.

Hay: The Hay evaluation system allocates points based on the requirements of a position's three factors, including know-how, problem solving and accountability.

Patterson: The Patterson system, while similar to the Peromnes system, focuses on positions in terms of decision-making only.

Castellion: This system was developed by SA Breweries and was the forerunner to the Peromnes system, which measures similar dimensions. While referred to by the Department of Labour in their table, this system has effectively been replaced by the Peromnes system.

Categorisation of employees by gender and Peromnes grades for international permanent employees

As at 30 June 2006

	PDIs			Non-PDIs				
Peromnes grade	Male PDIs*	Female PDIs*	Total PDIs*	Male Non-PDIs	Female Non-PDIs	Total Non-PDIs	Total	Non-PDI percentage to total
Grade1	–	–	–	–	–	–	–	0.00
Grade 2	–	–	–	–	–	–	–	0.00
Grade 3	–	–	–	1	–	1	1	0.00
Grade 4	–	–	–	–	–	–	–	0.00
Grade 5	–	–	–	–	–	–	–	0.00
Grade 6	–	–	–	12	1	13	13	0.00
Grade 7	7	–	7	39	1	40	47	14.89
Grade 8	22	–	22	24	2	26	48	45.83
Grade 9 – 19	843	50	893	111	6	117	1 010	88.42
Total international permanent employees	872	50	922	187	10	197	1 119	82.39

Previously disadvantaged individuals

Categorisation of employees by gender and Peromnes grades for South African permanent employees

As at 30 June 2006

	PDIs			Non-PDIs				
Peromnes grade	Male PDIs*	Female PDIs*	Total PDIs*	Male Non-PDIs	Female Non-PDIs	Total Non-PDIs	Total	Non-PDI percentage to total
Grade 1	–	–	–	1	–	1	1	0.00
Grade 2	–	–	–	3	–	3	3	0.00
Grade 3	1	–	1	10	–	10	11	9.09
Grade 4	1	–	1	11	–	11	12	8.33
Grade 5	1	1	2	7	3	10	12	16.67
Grade 6	9	1	10	62	5	67	77	12.99
Grade 7	31	4	35	103	14	117	152	23.03
Grade 8	40	6	46	95	26	121	167	27.54
Grade 9 – 19	3 485	696	4 181	369	191	560	4 741	88.19
Total South African permanent employees	3 568	708	4 276	661	239	900	5 176	82.61

Previously disadvantaged individuals

All business units have EE forums in place and the forum members have been trained to understand their roles and responsibilities. Group Five aims to achieve two sets of EE targets: targets set by the business units in terms of the Employment Equity Act, based on mirroring the demographics of the country, and the EE targets of the Construction Charter, which is the key measurement for the sector and the group.

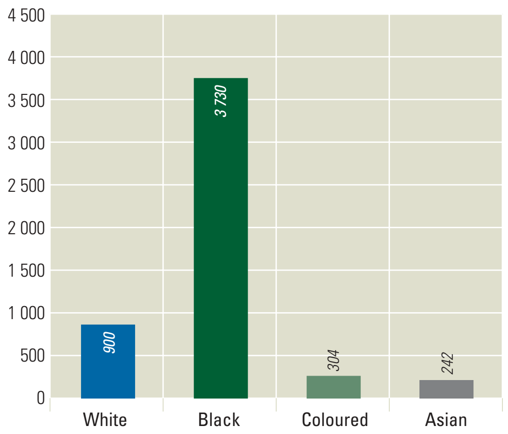
There is equitable representation at junior management and at the lower levels and a fair amount of progress has been made towards meeting EE targets at middle management level (Peromnes 6 – 7). Targets at senior management level (Peromnes 5 and above) have not been met.

The following measures have been taken to address the lack of delivery at senior management level:

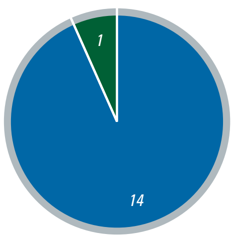
- EE is an agenda item at every business unit's quarterly board meeting
- Each business unit is required to perform a self-assessment in terms of the Construction Charter scorecard for review at the quarterly board meetings. EE and skills development ratings are business unit specific and are monitored by the business units' management teams
- The group's revised EE policy requires the establishment of a group EE forum to monitor progress against agreed targets. The first goup EE forum meeting took place in June 2006. The CEO is the chairperson
- Creating a pool of skilled engineers for fast-tracking

The group has also focused on the advancement of women. Group Five has employed seven females in Peromnes 7 and above during the year throughout its operations, with the most senior appointment being that of the group company secretary, a black woman. This will receive significant focus during F2007.

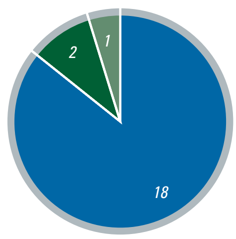
Total South African permanent workforce



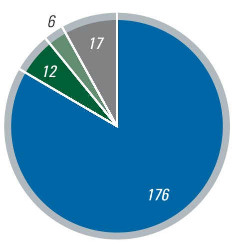
Executive management
(Peromnes grades 1 – 3)



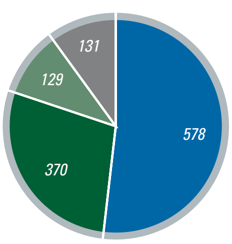
Senior management
(Peromnes grades 4 – 5)



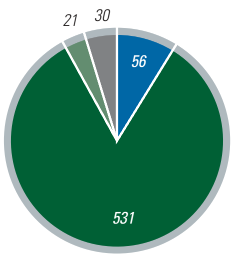
Middle management
(Peromnes grades 6 – 7)



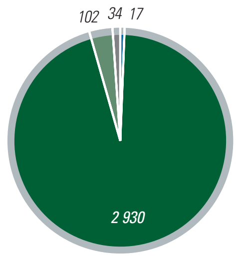
Specialist/skilled
(Peromnes grades 8 – 11)



Semi-skilled
(Peromnes grades 8 – 14)



Lower skilled
(Peromnes grades 15 – 19)



Note: All above numbers as at 30 June 2006

SKILLS DEVELOPMENT

Set out below are the major initiatives regarding skills development for all employees.

Initiative	Objectives	Progress
People at the Gate training programme	• To train unemployed local people in areas in which the group works	• Business units are recognising the value of having people trained before they are employed on site • Programme currently run on three construction sites
The launch of a learnership programme	• To implement a programme which will address the skills requirements of the business	• Launched by end June 2006
The centralisation of workplace skills and plans	• To submit one plan and one training report to the various SETAs	• Completed
Expand student management programme	• To expand the student management programme to include universities other than Wits and University of Johannesburg	• Now have students on the programme from other universities, ie Cape Town, Pretoria and Stellenbosch
A drive to attract more female students onto the student programme	• To increase the number of female students in line with the advancement of women	• Eight female university students recruited this year. More focus to be given on it in F2007
Implement an accredited mentorship programme	• To implement an accredited mentorship programme • To add value to the group's student programme and meet the requirements of the Construction Sector Charter	• Very little progress has been made as currently there is no SETA-registered programme • In the meantime, business units continue with their own mentorship programmes

Group Five recognises that the current skills shortage in the construction sector is a major inhibiting factor that could hamper infrastructure development and future growth in the sector and the group.

According to a Bureau for Economic Research survey for the first quarter of 2006, 98% of respondents in the civil engineering sector complained of skilled labour shortages.

Permanent South African staff trained during the year	
Senior management (Peromnes grades 4 – 5)	48
Professional and mid-management (Peromnes grades 6 – 7)	414
Skilled and junior management (Peromnes grades 8 – 11)	2 084
Semi-skilled (Peromnes grades 12 – 18)	2 035
Unskilled (Peromnes grades 15 – 18)	1 225
Total	5 806

In the year under review, R10,1 million was spent on training at Group Five, including bursaries for the student management programme.

In the year under review, the following People at the Gate training was conducted:

Number trained and total cost	Males	Females	Skills programme
210 R505 000	165	45	Painting Basic construction hand Bricklaying Scaffold building

The Group Five Academy

Group Five's response to the critical skills shortage is centered on training, which has led to the formation of the Group Five Academy this year. The academy, which was formally launched on 1 July 2006, will focus on developing the core competencies of Group Five's people, focusing on professionalism, discipline and consistency in support of doing things The Group Five Way. (Refer page 60.)

The Academy will be the umbrella body for training in the group and will cover the entire work chain. In theory, an employee could enter the programme at the lowest, unskilled level and progress all the way through to the executive development programme. The Group Five Academy is managed by a senior and experienced educator.

People at the Gate skills programme

This programme is aimed at unemployed job seekers arriving at construction sites in the hope of securing some form of unskilled or semi-skilled work. These job seekers are trained in basic construction skills by accredited training providers and to accredited standards.

95% of people trained on the programme were certified competent in the relevant basic skills. Of these, 187 were employed on site.

People at the Gate is a group CSI project and is funded and monitored by the group's CSI committee. (Refer page 165.)

Skills programmes

Skills programmes have been conducted successfully on many of the construction contracts. Business units are required to identify training needs and these form part of the business units' workplace skills plans. These skills programmes are of short duration and designed to address short-term skills requirements. Permanent, non-permanent and unemployed people are identified for these programmes. Training is provided by accredited training providers and to registered standards.

The Group Five learnership programme

The Group Five learnership programme is aimed at addressing the group's critical skills shortage over the medium to long term.

In the year under review, the following skills programme training was conducted:

Number trained and total cost	Males	Females	Skills programme
163 R368 000	96	67	Bricklaying Plastering Basic construction hand Setting out Basic surveying

Learnership programmes	NQF Level	SETA
Construction Supervisor	4	CETA
Construction Supervisor (Roadworks)	4	CETA
National Certificate in Management of Building Construction Processes	4	CETA
National Certificate in Management of Building Construction Processes	5	CETA
National Certificate in Management of Civil Engineering Construction Processes	5	CETA
National Certificate in Engineering (Boilermaking)	3	MERSETA
National Certificate in Engineering (Boilermaking)	4	MERSETA
National Certificate in Welding	3	MERSETA
National Certificate in Welding	4	MERSETA
National Certificate in Management	4	SERVICES

The programme will focus on developing skilled workers to meet the skills requirements identified by the business units. The learnership levels targeted will be NQF level 3 to NQF level 5 and will focus on the programmes set out above.

The duration of the learnerships will vary from 12 to 24 months and will consist of permanent employees and unemployed learners.

This programme was launched at the end of June 2006 and will be funded by Group Five over and above the skills development levy, which is paid monthly to the SETAs and is available as a refund for other actual skills programmes undertaken. The SETAs to which Group Five is affiliated will be responsible for the accreditation and quality control of the programme.

It is envisaged that 100 learnerships will be registered, which has been budgeted at a cost of R3,1 million. This is the first time that such a large amount of money has been allocated to a programme outside of the CSI allocation and demonstrates the group's commitment to training.

Student management and bursary programme

Group Five is committed to the development of young talent and is focused on the concept of "growing its own", in line with business needs and the career-related needs of its students.

The group believes in:

- An ongoing student management programme
- Providing opportunities for employees to join the programme
- Balancing the intake/discipline of students to meet business needs
- Addressing EE targets
- Providing a pool of young, qualified graduates for succession planning

In the period under review, R4,1 million was spent on the group's student bursary programme.

Total number of students	113
Degree courses	41
Diploma courses	72
Males	98
Females	15
Disciplines	Civil engineering Mechanical engineering Construction management Quantity surveying Electrical engineering

The Group Five student management policy incorporates both centralised and decentralised measures. Each business unit has structures to develop and support students studying diploma courses, whilst university students are managed by the group's corporate office.

Training outside public practice (TOPP)

During 2002, Group Five was awarded Approved Training Organisation (ATO) status by the accreditation committee of the South African Institute of Chartered Accountants (SAICA). This allows the group to provide training to employees wishing to become chartered accountants (CAs).

One of the major benefits of SAICA's recognition of the group's training programme is that employees can perform their traineeship whilst employed by the group as opposed to serving articleship with an accounting and auditing firm.

The students registered within the group's programme have performed exceptionally well, both with regard to their examination results of CTA and QE Part 1, as well as their performance within the organisation as part of their articleship. Pending training programme sign off in December 2006 and the results of QE Part 2 in February 2007, the group expects to present the first fully-qualified chartered accountants on its programme in March 2007.

Professional leadership development

Group Five supports the development of its "young tigers" (people with potential) and middle and senior management. A strategic partnership has been formed with the Gordon Institute of Business Science (GIBS), which has developed a five-module adaption of the well-respected Professional Management Development (PMD) programme specifically for Group Five. This programme combines classic management

(1) *Learnership programmes address short-term skills requirements* **(2)** *Basic skills are taught to local community members through the group's unique People at the Gate programme*

(1)

(2)

and leadership development with specific complementary exposure to group initiatives such as Six Sigma, BEE, corporate governance and construction contract case studies.

Executive development

Employees at senior level will be targeted under the umbrella of the Group Five Academy, which will cater for executive leadership development through experential and interactive learning through education partners such as GIBS and others.

PREFERENTIAL PROCUREMENT

Overview

Historically, Group Five has only measured the ownership of its suppliers as the qualifying BEE criteria in terms of procurement. With the conclusion of the Construction Charter, this will change to focus not only on equity, but to also include other broad-based factors such as EE, BEE procurement, etc.

Although the dti has finalised the scorecard to measure BBBEE, they have not yet named any organisations that are qualified to conduct a BBBEE audit and provide accreditation status.

Until the dti releases a list of approved accreditation agencies, it is difficult to impose any requirement on the group's supplier base to become accredited.

However, in the interim, a supplier base research organisation (Ezee-Dex) was approached to survey the group's top 2 000 vendors.

- 47% declined to respond
- 50% responded and completed the scorecard
- 3% outstanding

Still using ownership as the qualifying criteria, it would appear that the BEE procurement profile of the group has improved from 24% to 29% of total South African procurement sourced through empowered organisations. (See tables on page 162.)

Although the survey responses need to be validated, the following assumptions can be made for the purposes of completing the respective BEE scorecards:

- A supplier that is 25% black-owned should at least qualify as a Level 8 organisation (30<40 points);
- A supplier that is 50% black-owned should at least qualify as a Level 7 organisation (40<45 points).

These assumptions are conservative, and once the ratings of vendors are completed, it is expected that the Group Five profile may improve even further.

Next steps

The next steps are defined in three phases:

- Phase 1 – Complete the respective supplier scorecards using data obtained through the Ezee-Dex survey
- Phase 2 – For all organisations who claim BBBEE status, their scorecard must be validated through either a statement audited and signed off by their external auditors, or an accreditation certificate from one of the industry recognised accreditation agencies
- Phase 3 – Identify potential new suppliers who are empowered, convince existing suppliers to become empowered and grow the BBBEE procurement profile

Conclusion

The group's supplier base is generally not ready to provide input on the dti scorecard as is seen by the high rate of declines to respond to the survey. However, the survey has definitely created awareness that Group Five is serious about transacting with empowered organisations. Maintaining this momentum will also ensure that Group Five is ahead of its peers in transforming procurement and in achieving accurate procurement reporting.

The level of focus required to accurately report on the group's procurement profile and grow procurement through accredited organisations is becoming a full-time function. A dedicated BBBEE procurement manager will therefore be recruited in F2007 to strategically manage this area of the business.

Annual BBBEE procurement growth targets will be defined to ensure that the Construction Charter requirements are met.

CASE STUDIES OF GROUP FIVE STUDENTS

"In my four years of study I have been required to do vacation work at various business units. This has enabled me to broaden my perspective of the built environment and I was able to gain a better understanding of the role I would eventually take up in the company. This part of the programme is unique, as most other bursary programmes restrict the student to working for the sponsoring business unit only.

Through my involvement in various university societies I was encouraged to participate in activities outside the realms of my traditional training, such as finances, communication and the so-called soft issues.

CEO Mike Lomas and Mpho Samuel Nkgodi

Particularly impressive is the comprehensive cover of tuition, as well as the continued support from both the human resources staff and its liaison officers. This commitment was instrumental in providing the basis from which I not only successfully completed the degree course in record time, but also resulted in the achievement of a substantial number of distinctions. I was recently presented with the Africon award for the most outstanding final year student in the Bachelors Degree in Civil Engineering for 2005.

Group Five's bursary students are highly regarded in the respective disciplines. This has been confirmed by the recognition for outstanding academic and other performances by external parties. In 2005 I was nominated for the prestigious Able Bailey Scholarship. This is a British scholarship that aims to enhance the leadership skills of its participants by exposing them to different academic and extramural activities at universities in the United Kingdom. Unfortunately I did not get the award, but I ended up as one of the top two nominees.

I have recently been awarded a scholarship by the French government to further my engineering degree in an Advanced construction programme for engineers in the built environment in Paris.

The Group Five bursary programme is one of the best ways to build a skills pool from which the company will have unlimited access to resources for succession planning."

CASE STUDIES OF GROUP FIVE STUDENTS

"For a challenging degree such as BEng (Mechanical) the last thing one needs is to worry about unpaid fees or the lack of funds to acquire textbooks and other aids that are needed for the degree course. Being a recipient of the Group Five bursary scheme has definitely spared me the trouble of how I will pay my fees and other study requirements.

The best part of the bursary programme is the prompt response to any study-related need that arises. It is an awesome experience to work for Group Five. It is my intention to take the company to new heights in every business that I will work in. There is no doubt in my mind that what Group Five has invested in me will have numerous returns. Group Five is getting someone with zeal and ability."

Nathi Nala

Mathilda Roos

"Being sponsored by one of the biggest companies, Group Five, to study civil engineering at university, has been an honour and a privilege. During my course, I have had the chance to be involved in many site contracts as part of my vacation work. Gaining experience in the construction industry has been a life changing experience.

Studying at university has brought with it many hardships. I have experienced family and other problems. Studying Civil Engineering is in itself very demanding and I am required to apply myself constantly and diligently. With the support that I receive from Group Five I am able to overcome the difficulties I encounter and I am working to realise my potential.

Through my experiences, my ambition to become a civil engineer has always been clear and this has motivated me when I needed it most. The challenges that I have been through have moulded me into a better person. I look forward to stepping into the working environment and making a contribution to taking Group Five to greater heights."

"My name is Nicholas Lee. I am currently in the second year of studying quantity surveying at Wits University. First of all, I would like to thank and acknowledge the people at Group Five for giving me a student bursary because without brilliant people generating the profits in the organisation, none of this would have happened. At a young age I knew what I wanted to do, what industry I wanted to be in and I knew that I wanted to join one of the best companies in South Africa.

When I travel in Johannesburg, I look around and all I see is a mirage of blue and white cranes. "Wow!" I say to myself, "how can a company have this much brand power to absolutely captivate me and get me excited all at once?" Group Five has given me a chance to shine. What an incredible blessing! This kind of opportunity comes once in a lifetime."

Nicholas Lee

Analysis of South African-based procurement is set out below (refer page 159.)

Prior to the Ezee-Dex Survey			
July 2005 to May 2006	25%+ Level 8	50%+ Level 7	Total BEE
CBS	26.6%	3.3%	30%
Building	4.5%	13.3%	18%
Civil Engineering	9.4%	21.0%	30%
Engineering Projects	19.4%	14.3%	34%
Housing	6.0%	19.7%	26%
Intertoll Africa	0.2%	2.8%	3%
KwaZulu-Natal	11.8%	34.0%	46%
Everite	3.1%	8.7%	12%
Plant and Equipment	11.0%	10.2%	21%
PDS	3.8%	0.2%	4%
	7.3%	16.3%	23.6%

Post Ezee-Dex Survey			
July 2005 to May 2006	25%+ Level 8	50%+ Level 7	Total BEE
CBS	28.3%	3.4%	32%
Building	9.6%	17.1%	27%
Civil Engineering	11.1%	24.7%	36%
Engineering Projects	21.0%	16.7%	38%
Housing	8.7%	19.8%	29%
Intertoll Africa	0.4%	21.6%	22%
KwaZulu-Natal	11.8%	34.9%	47%
Everite	2.2%	10.1%	12%
Plant and Equipment	18.0%	15.7%	34%
PDS	4.3%	0.2%	5%
	10.0%	19.0%	28.9%

ENTERPRISE DEVELOPMENT

The construction industry, together with the South African government, realised while drafting the Construction Charter, that there is a distinct lack of capacity in the sector. The enterprise development section of the Construction Charter was therefore designed to correct this weakness arising from decades of under-investment in capital projects, as well as providing an opportunity to correct the imbalances of the past, particularly with regard to the participation of women.

Enterprise development must be clearly distinguished from joint ventures, which involve a sharing of risk and resources to achieve a common goal of making profit. Enterprise development, as defined in the Construction Charter, is the development of black-owned enterprises (50% plus one share) through investment, mentoring, skills development and systems transfer.

Group Five has entered into a formal signed agreement with the construction arm of the iLima Group, namely iLima Projects.

In terms of this agreement, the following arrangements have been put in place:

- Management and labour assistance and skills transfer
  - One executive director of Group Five sits on the board of iLima Projects in a non-executive capacity
  - Two financial resources (including a senior financial manager) have been seconded by Group Five to iLima Projects for a period of 18 months
  - The tendering and estimating management of Building has been made available to iLima Projects in a review and consultation capacity
  - Group Five KwaZulu-Natal management have provided review and consultation support to certain of the Eastern Cape contracts of iLima Projects
- Establishment of administrative systems
  - Group Five has conducted a full review of the financial, payroll, IT, site administration processes, policies and procedures and assisted in improving, formalising and implementing new systems, processes, policies and procedures at iLima Projects
  - In particular, the Group Five financial and job costing system, JD Edwards, has been fully implemented at iLima Projects. During F2007 the implementation of Group Five's PeopleSoft HCMS (refer page 66) will be undertaken
- Financial assistance
  - Group Five's total direct costs relating to the above for F2006 amounted to R511 937 for which no charge has been made to iLima Projects
  - Group Five has provided a medium-term loan to iLima Projects of R14,4 million repayable on 30 June 2007 and bearing interest at bank prime overdraft rate to fund working capital requirements
  - Group Five has provided a letter of guarantee to Investec Bank Limited in support of a short-term loan of R10 million that Investec has provided to iLima Projects for working capital requirements
  - Financial institution guarantees of R250 million have been allocated by Group Five from its facilities to iLima Projects for current contracts
  - Group Five has agreed to assist iLima Projects with plant and equipment required for its contracts, which will be charged at arm's length rates

Since 1 October 2005, iLima Projects' secured order book has grown from R110 million to R440 million and its permanent staff complement from 77 to 145.

In addition to the above, although not specifically qualifying for enterprise development in terms of the Construction Charter, Group Five has entered into a number of joint venture contracts with majority black-owned companies. Details of significant contracts undertaken in the current year are set out on the next page.

Black-owned joint venture partner	Name of contract	% holding in joint venture	Total value of contract R'000	Commencement date of contract	End date of contract
Masinya Consortium	ICC Extension, Durban	51%	360 000	December 2004	August 2006
J&J	VRESAP Pipeline	25%	80 000	October 2005	August 2007
Pandev	Parts of Umhlanga	20%	260 000	September 2005	December 2007
Pandev	Pavilion Extension, Durban	51%	45 000	May 2005	June 2006
iLima Projects	Cradock Road	30%	93 000	January 2005	September 2007

(1) *Adult Basic Education Training (ABET) provides Everite employees with accredited literacy and numeracy skills* **(2)** *Enterprise development includes mentoring, skills development and systems transfer*

(1)

(2)

CORPORATE SOCIAL INVESTMENT

The group's focused initiatives in terms of CSI are set out below:

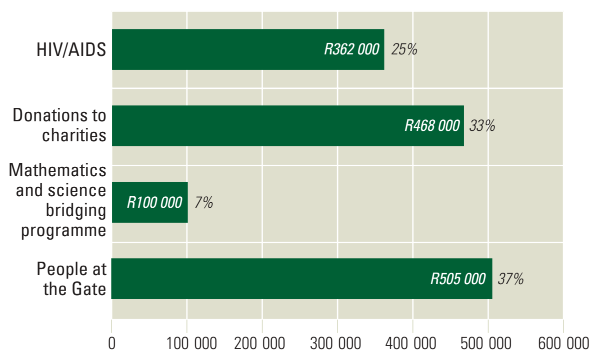
Initiative	Objective	Progress
Funding target in line with requirement of the Construction Charter – increased to 0.25% of annual South African payroll	• To meet or exceed this target	• For the year under review, a total spend of 0.14% of South African payroll or R1,4 million was incurred
Identifying other initiatives to deliver training and upliftment	• To meet or exceed Construction Charter requirement	• Over and above the current CSI funding, a further amount of R3,1 million allocated to learnership programmes • Will consist mainly of unemployed people • Wholly funded by Group Five as CETA now excludes unemployed learners from their funding model
To choose charities for ad hoc spending effectively	The charities chosen have to: • Have a sound track record • Have adequate financial controls • Be legally compliant • Provide opportunities for employee involvement	• Achieved

CSI is an integral part of the Group Five business strategy and is driven at the highest level. It is seen as a business imperative that supports the group's business objectives. The group's CSI board committee is representative of the diversity of the organisation and consists of board members as well as Exco members and senior management.

CSI funding is approved on an annual basis by the Group Five board. In previous years the target was 1% of profit after tax. However, in line with the requirement of the Construction Charter, the target has been amended to equate to at least 0.25% of annual payroll. For the year under review, a total spend of 0.14% of payroll or R1,4 million was incurred.

Total CSI spend for the year ended 30 June 2006

Total spend (R1,4 million)



Discretionary spending/donations

Applications for donations are received continuously. After a selection process, an amount of R468 000 was paid to various charities and institutions.

The charities chosen have to have a sound track record, adequate financial controls and have to be legally compliant. The different charities also have to provide opportunities for employee involvement. The charities are listed in the next column.

Mathematics and science bridging programmes

Group Five recognises that there is a desperate need for construction-related skills in the group and the industry. The bridging programmes sponsored by Group Five provide a second chance to learners who applied to study engineering or engineering-related courses at a tertiary institution, but who failed to meet the entrance requirements.

Going forward, Group Five will shift its focus from the bridging programmes to learnerships. The funding that was allocated to bridging programmes will be redirected to the learnerships and an additional amount of R3,1 million will be added to register 100 learners on the programme. (Refer page 157.)

People at the Gate project

Group Five believes it has a duty to address poverty alleviation and job creation. The People at the Gate project is aimed at unemployed people, selected from local communities in the areas of operation. It targets individuals who present themselves at sites looking for employment and who cannot be accommodated. (Refer page 156 for details.)

Employee participation programme

Group Five has given increased focus to involving staff in its CSI initiatives. It still has some way to go to implement a formal volunteering programme, but staff involvement in general has increased significantly during the year.

One of the key initiatives outside of staff spending time at the different charities is the Group Five care bins. The care bins are situated in the reception area of the Group Five head office. Employees are encouraged to fill the bins with non-perishable food items, clothing, toys, etc. The donations are sorted and distributed to charities nominated by employees. Employees are encouraged to visit the charities when the donations are distributed. Employees have responded very positively and a base of core volunteers has been established. The following charities have been the recipients of this initiative:

- Tshwaraganang home-based care centre, Alexandra Township – a centre for HIV-positive people
- Chubby Chums – for distribution at soup kitchens
- Marathon Informal Settlement – a crèche in an informal settlement in Primrose, Germiston
- Patricia Tshabalala – a shelter for homeless children

Charities	Rands
Cluny Farm	70 000
Strathyre Home for Girls	70 000
"No Violence against women and children"	20 000
Chubby Chums	70 000
St Francis Care Centre	70 000
Durban Institute of Technology	50 000
University of Johannesburg – "Technolab"	57 000
Volkskool, Heidelberg	5 000
The Art & Craft of SA Timber Homes	6 000
Vaal University of Technology	50 000
Total	**468 000**

SAFETY, HEALTH, ENVIRONMENT AND QUALITY MANAGEMENT (SHEQ)

SHEQ POLICY

Group Five implemented a formal SHEQ policy in 2002. Since then, it has made major advances to ensure that the achievement of SHE best practice remains a high priority within operational activities. Every site reports monthly to their respective head office, which in turn reports into the corporate office where the group risk officer collates information and reports directly to the main board of Group Five.

At present, the quality systems of SHEQ are produced and controlled by the individual business units. General inspection and control formats are similar, but are not controlled in the central management corporate system as is the case with safety, health and environment. A management objective for the next financial year includes developing a standard quality system to be integrated into the existing SHE management system. For that reason, this report refers in certain instances to SHE and in others to SHEQ, where quality is included in the discussion.

During November 2005 the corporate office SHE system was independently assessed against OHSAS 18001 standards and given full OHSAS 18001 certification. Certification audits were performed by Dekra Intertek Certification (Pty) Ltd, an international certification body established in 1926 and accredited by the German accreditation board (TGA).

The certification of systems was the culmination of two years of involvement from all the relevant stakeholders at CBS. CBS based the management systems and controls on the Group Five SHE standards, which have been developed over a period of three years as an umbrella system for all Group Five business units. The standards proved to be satisfactory for implementing practical management controls. These Group Five standards are available to all business units through the company intranet and all business units use the standards to develop their internal systems. The annual corporate audits reflect high levels of implementation achieved by the business units.

All sites strive to achieve and maintain a Disabling Injury Frequency Rate (DIFR) of less than one

Certification targets for OHSAS 18001 and ISO 19001/2000 are set out below

Business unit	OHSAS 18001 readiness	Certification audit date	ISO 9001/2000 Status	Certification audit date
CBS	100%	Listed	85%	Nov 2006
Civil Engineering (Dubai)	90%	Sept 2006	85%	Jan 2007
KwaZulu-Natal	75%	Sept 2006	100% listed	Listed
Building	60%	Nov 2006	In development	Jan 2007
Civil Engineering (Local and Africa)	100%	Listed	100% listed	Listed
Housing	80%	Nov 2006	In development	Jan 2007
Plant and Equipment	75%	Nov 2006	In development	Jan 2007
Engineering Projects	90%	Nov 2006	100% listed	Listed
Group Five Pipe	50%	Nov 2006	100% listed	Listed
DPI	60%	Nov 2006	100% listed	Listed
Everite	75%	Nov 2006	100% listed	Listed
Vaal	75%	Nov 2006	100% listed	Listed
WSSA	85%	Nov 2006	100% listed	Listed
Intertoll Africa	70%	Nov 2006	100% listed	Listed

SHE

Corporate SHE objectives

In line with the stated key drivers within the group policy and strategy, noteworthy progress is evident.

Initiative	Progress
• All business units will comply with the Group Five SHE management system as a minimum, unless over-border regulatory requirements exceed these standards	All business units make use of the Group Five SHE standards. 100% achieved
• All business units should achieve a Bronze Group Five SHE rating	100% compliance
• Achieving and maintaining a DIFR of less than one. Refer page 171	The DIFR for the group remains consistently around one. Refer to DIFR chart page 171
• Every business unit to obtain OHSAS 18001 certification by end of 2006	• CBS awarded full certification in November 2005 • Group Five internal audit report results as at November 2005 indicate that 62% of the business units are 80% compliant with OHSAS 18001 criteria, while the remaining 38% are 70% compliant

Initiative	Progress
• Continuously identifying and assessing occupational and environmental hazards with a view to implementing measures to mitigate or control these elements	• All business units implement risk assessment programmes that include environmental impacts • A comprehensive legal register is available for environmental legislative requirements
• Establishing ongoing communication and training programmes to increase individual awareness levels of safety, health and environmental issues, responsibilities and accountabilities • At least 25% of the workforce must receive some formal SHE training over any period of 12 months	• Programmes are established to ensure all new employees receive induction training, which includes aspects of SHE
• Promoting responsible actions to exercise care in conserving the natural environment. Where unavoidable disturbances are made, rehabilitation is undertaken to ecological standards specified by landowners and legislation as a minimum	• Zero contravention notices received • Everite waste site to close two years ahead of schedule • Rehabilitation of Everite club site continues • Roads and Earthworks works closely with the client to ensure borrow pits and other disturbances are rehabilitated
• Performing internal and external audits on the business units to ensure stated performance levels are achieved and maintained	• Full compliance with annual corporate audits performed since 2003 • Dekra Intertek Certification appointed as Group Five external auditors
• Ensuring that sub-contractors and service providers to the group conform to laid down requirements set by the group and in line with the principles of the SHE management system	• Sub-contractors included in all programmes and monitored on a regular basis
• Providing adequate financial and physical resources to achieve SHE management objectives in an effective and productive manner	• Statistical progress reports are conveyed to the main Group Five board via the group risk officer • All business units endeavour to employ full-time SHEQ personnel

Group Five SHE management system support

CBS continues to provide and has extended support to the business units by providing access to the Group Five SHE programme and electronic reporting formats that has allowed user-friendly SHE statistical reporting formats. Additionally, business units have access to centralised expert resources.

Quarterly meetings are held where all business unit SHE and SHEQ managers have access to submitting and being part of the updating and amending of the system.

The current year has seen amendments and improvements made as follows:

- Hazard identification and risk assessment formats and database established
- Electronic reporting formats implemented
- The implementation of a corporate legal register, which is continually updated and accessible to all relevant stakeholders through a secure site on the intranet
- Quarterly meetings and training sessions for SHEQ managers held
- Effective communication channels established in the event of a major incident

- Development of a standard induction format available to all business units
- The development of a user-friendly SHE induction booklet for use within the group

Corporate legal register

In 2005 Group Five commissioned IMBEWU Enviro-Legal Specialists (Pty) Ltd to prepare a SHE legal register. The commissioning and the ongoing expansion and improvement of this SHE legal register must be seen in the context of the development of Group Five's overall environmental and health and safety management systems, which is to achieve ISO 14001 and OHSAS 18001 certification and, most importantly, the intention to ensure ongoing and sustainable SHE legal compliance within the Group Five operations.

The SHE legal register comprises both non-mining (industrial) and mining components that are intended to assist in achieving the following:

- Providing a guideline that identifies the key SHE legal requirements that are applicable to Group Five's mining and non-mining-related operations
- Applying the key relevant SHE legal requirements to the environmental aspects and health and safety risks and hazards of Group Five's mining and non-mining-related operations
- Facilitating easy access by Group Five personnel to the key relevant SHE legislation, guidelines and policies, as well as to interpretations and explanations of key issues to aid in the understanding of the legislation and its application
- Sustaining SHE legal compliance within the Group Five operations
- Supporting the Group Five SHE document management system function
- Facilitating ISO 14001 and OHSAS 18001 certification of the Group Five operations

The corporate level SHE legal register includes a comprehensive SHE legislation database that covers the key SHE national legislation that applies to the Group Five operations. The register also includes key provincial legislation and local authority by-laws for certain main areas in which Group Five operates.

The register is accessible on the Group Five network and is hosted online to ensure that all relevant Group Five personnel are able to access the register when required.

The SHE legal register is updated bi-annually to take into account changes in legislation and to accommodate the changing operations of Group Five over time. In addition, a SHE legal update service is provided by IMBEWU on a monthly basis to ensure that Group Five is kept aware of current and pending changes in SHE legislation at national, provincial and local levels and is able to take steps to plan for and accommodate these changes within the context of its operations. There is an ongoing process of improvement, adaptation and expansion of the SHE legal register, with the intention to eventually ensure that the register is appropriately site specific to all relevant Group Five operations.

Corporate SHE audits

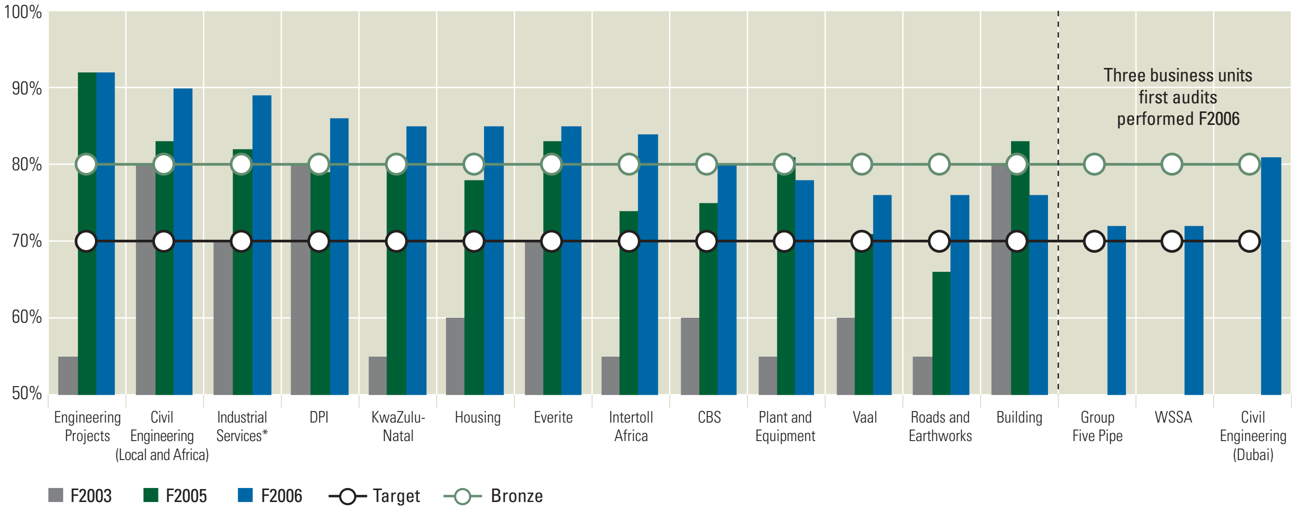
In line with the corporate objectives, a SHE audit was undertaken on all business units during September, October and November 2005. The audit was the third corporate SHE audit since implementation of the Group Five SHE system in 2002. The scope of the audit determined legal compliance, readiness towards OHSAS 18001 certification and implementation levels of Group Five SHE standards. The chart on the next page displays a comparison over the three periods audited for F2003, F2005 and F2006.

All business units achieved the 2005 objective of a Bronze rating which indicated a rating above 70%. The CBS rating of 80% was used as a benchmark and ratings of 80% and above were determined as representative of a position for readiness to request preliminary audits from an accreditation body.

In general, business units displayed improvements between the audits conducted in F2005 for Group Five systems implementation. However, there were two business units that demonstrated a decline:

- **Plant and Equipment's** decline was mainly due to the inclusion of the Building and KwaZulu-Natal yards into the audit process. Both facilities had housekeeping problems and equipment inspections were not recorded as required under specific legislation. Management interventions have resulted in visible improvements

Group Five SHE performance comparisons (F2003/2005/2006)



* (Part of Engineering Projects)

→ **Building** displayed a very high level of system controls and implementation on contracts, but there had been very little progress made on controlling systems from a business unit head office perspective. Staff changes also resulted in some records being misplaced, which prevented audit verification from being concluded. Management and staffing interventions have resulted in visible improvements

Of the other four business units allocated a rating of under the 80% target, two were audited for the first time, namely WSSA and Group Five Pipe. These systems were therefore without historic back up.

The Dubai operation was audited for the first time and displayed a constructive and committed approach and provided historic records to display a developing, but working system.

DIFR overview

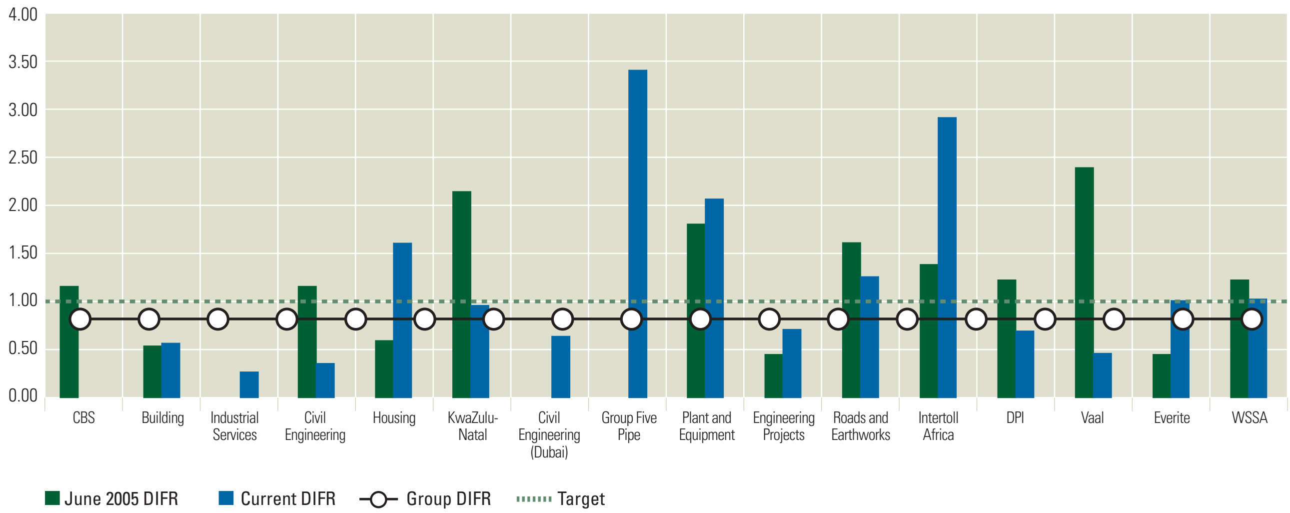
Current figures indicate DIFR below industry average. The group's risk profile includes approximately ten million man hours working at heights of two metres and above, five million man hours working in excavations deeper than two metres and six million man hours exposed to hot work, which includes welding and cutting operations. Manufacturing recorded in excess of four million hours where exposures included silica dust, noise and machinery. IDS' operations and maintenance business recorded over three million hours where employees are transported to and from their place of work, exposing them to road accidents.

These exposures resulted in no construction-related fatalities. The one fatal injury was the result of an industrial accident. Falls from height and excavation-related injuries did not make up a significant portion of the lost time injuries.

Cumulative from July 2005 to June 2006

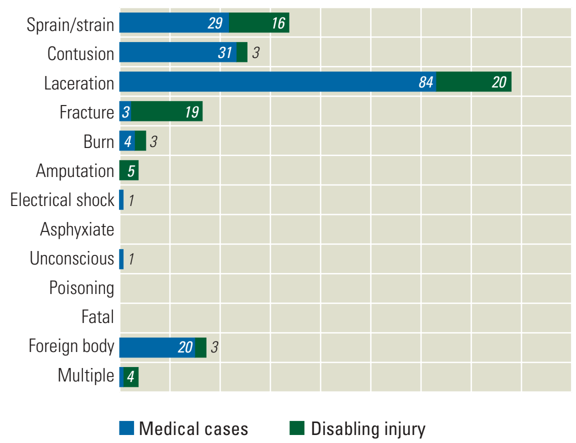
	Man hours	First aid	Non-lost time injury	Lost time injury	Occ disease	Fatal	Current DIFR	DIFR as at March 2005	Environ-mental incidents	Site inspec-tions
Group total	24 273 971	1 553	238	102	25	1	0.85	0.89	12	1 400

Group Five DIFR as at June 2006 vs DIFR as at June 2005

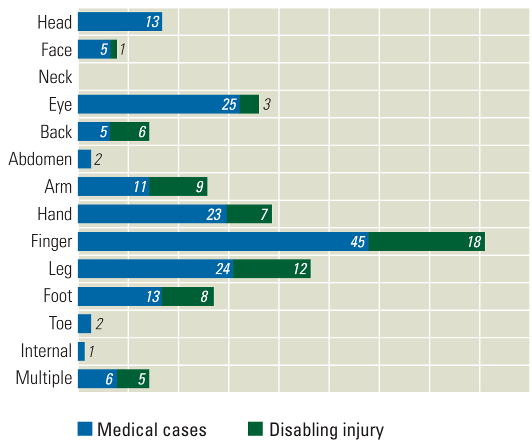


Of the 102 disabling injuries (lost time injuries) experienced, the majority were lacerations and fractures to hands and fingers. Sprains and strains had the next most influence and indicated ankle and leg sprains.

Group Five injury experience
July 2005 to June 2006
Nature of injury



Group Five injury experience
July 2005 to June 2006
Body parts affected



Individual business units have implemented awareness campaigns to address hand injury exposures and eye injury events. These include toolbox talks addressing eye protection safety "dust in the eye" programmes and "HIP" hand injury programmes.

Emphasis is placed on individuals' responsibility to maintain safety protection standards.

The six million man hours of exposure to hot work, welding and cutting resulted in 17 eye injuries, a DIFR of 0.57. Although, low, particular attention is being given to this type of injury with on-site programmes focused on proper PPE and enforcement of use.

Risk-based medical surveillance

Based on dust survey results and historic data, employees exposed to hazardous substances are monitored as required under relevant legislation.

Employees working at heights and operators of construction equipment undergo medical examinations by occupational practitioners as required by construction regulations.

Employees working over-border attend a travel clinic and undergo medical examinations required for the areas in which they will be working.

Noise induced hearing loss (NIHL)

Manufacturing maintains audiometric testing as required by the relevant legislation. Construction follows similar guidelines where operators of construction equipment undergo audiometric testing.

Heat exposure

Working in the Middle East, employees are exposed to extreme heat conditions. Local legislation and Group Five programmes include heat exhaustion and exposure limitation controls. Every site is provided with a cold water unit and employees are provided with isotonic supplements.

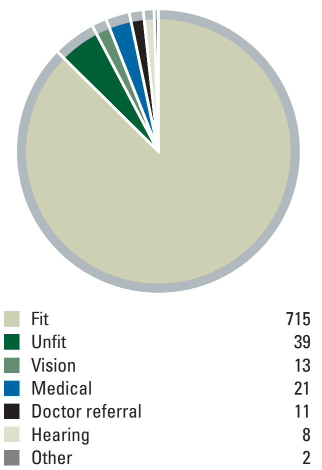
Clinic statistics

Whenever practical, all employees requiring medical examinations are referred to a common clinic. Engineering Projects and Civil Engineering require mostly medical examinations for over-border work. Plant and Equipment use the facility for medical examinations of construction equipment operators.

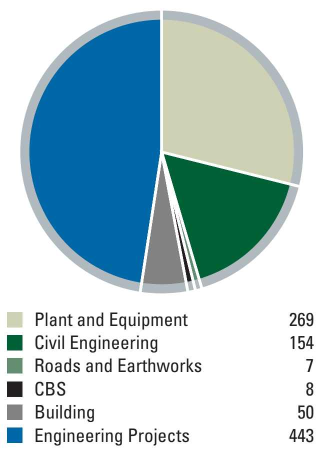
Statistical records supplied by the clinic indicate that 5% of people examined were declared unfit for the proposed position or over-border work. The majority of these cases were due to high blood pressure. The clinic informs the employee and employer, after which referrals are made to medical practitioners for further treatments.

Statistical data indicates that referrals for potential hearing loss were very low at 1% of persons visiting the clinic.

Findings of employment-related medicals
(Empolyees tested at clinic)



Clinic visits by business units
(Number of employees)



CONSTRUCTION

Current statistics for Construction indicate a DIFR (calculated on a factor of 200 000) well below the industry average.

Cumulative from July 2005 to June 2006

Construction	Man hours	First aid	Non-lost time injury	Lost time injury	Occ disease	Fatal	Current DIFR	DIFR as at June 2005	Environ-mental incident	Site inspec-tions
CBS	316 230	–	–	–	–	–	0.00	1.15	–	11
PDS	32 986	–	–	–	–	–	0.00	0.00	–	31
Logistics (Apr to Jun 2006)	20 125	–	–	–	–	–	0.00	0.00	–	0
Angola Housing (July 2005)	59 654	9	–	–	–	–	0.00	0.25	–	3
Building	1 804 642	108	10	5	–	–	0.55	0.53	1	420
Industrial Services*	747 877	22	10	1	–	–	0.27	0.00	–	34
Civil Engineering (Local and Africa)	3 433 107	57	23	6	–	–	0.35	1.14	–	112
Housing	872 037	30	2	7	–	–	1.61	0.58	–	404
KwaZulu-Natal	1 259 403	121	21	6	–	–	0.95	2.14	–	183
Civil Engineering (Dubai)	4 442 662	1 021	67	14	4	–	0.63	0.00	–	47
Plant and Equipment	681 044	5	2	7	–	–	2.06	1.80	–	6
Engineering Projects	2 301 932	56	22	8	10	–	0.70	0.43	–	38
Roads and Earthworks (July to Dec 2005)	1 285 729	27	7	8	5	–	1.24	1.60	9	41
Construction Total	17 257 428	1 456	164	62	19	–	0.72	0.80	10	1 330

** Part of Engineering Projects*

Housing reflects a DIFR of over 1.50 and Plant and Equipment reflects a DIFR of over 2.00. Both business units are focusing on reducing this rate to below 1. SHE managers monitor on-site performance and training campaigns are honed to address weak areas.

Analysis of Malaria occurrences – Engineering Projects

Engineering Projects Site	Local employees affected	Percentage of workforce	Average time off	Estimated lost man hours	Percentage of lost contract man hours
Kansanshi, Zambia	240	28.24	5 days	10 800	0.54
Ruashi, DRC	20	26	5 days	900	1.67
Ghana Small Works	110	98	5 days	4 950	1.10
GTA Malongo and Tank 11	4	1.14	5 days	108	0.01
Total	374	38.35	5 days	16 758	3.14

Occupational health

The majority of occupational diseases reported during the period were malaria cases reported over-border.

Malaria is considered an occupational disease if the employee is sent into a declared malaria area by their employer and is thus exposed to the disease.

In an effort to achieve more meaningful statistics for malaria cases, all business units working over-border investigate current reported malaria incidents to reflect the effect on the workers. The recording of local cases is not 100% accurate as employees may stay off work due to malaria and then not report this as such.

Figures available from Engineering Projects working in Zambia, the DRC, Ghana and Angola indicate Ghana as being the area where locally employed people are affected the most by malaria.

Total expatriate employees affected by malaria over the reporting period was 22, effectively 4% of the persons undergoing medical examinations for over-border work. This indicates that the malaria avoidance controls implemented by the business units are effective. Only one of the reported expatriate cases required an emergency evacuation from the work area to South Africa for treatment.

Controls include pre-medical consultations where malaria avoidance is discussed and prophylactics, insect repellent and mosquito nets are issued.

The five occupational disease cases reported by Roads and Earthworks include noise induced hearing loss and four alleged silicosis claims of which three of the four were sent for re-testing with a pulmonologist in East London. All three cases received a clean bill of health. The fourth person did not return despite Group Five assisting with transport costs and the commissioner was requested to rule on all four cases.

Site inspections and site audits

1 330 formal inspections and site audits were performed throughout Construction compared to 688 reported during 2005. This indicates increased management involvement in SHE programme implementation. An average of 100 inspections are performed monthly throughout the operating business units – almost seven management inspections per business unit per month.

Environmental incidents

Accurate and consistent reporting of environmental incidents has not reached an acceptable level and with the targeted ISO 14001 certification, this element will be prioritised for improvement. There were, however, no reports of incidents with significant impacts on the environment. The nine incidents reported from Roads and Earthworks were construction material spillages and affected the immediate environment only. Clean-ups and rehabilitation were performed as per client specifications.

Where contracts are undertaken in environmentally sensitive areas, site management work closely with representatives from DEAT to ensure disturbances are managed and rehabilitation programmes implemented.

The Group Five SHE system provides for implementing environmental controls and is presently being reviewed with environmental systems experts. The system will be amended where required to ensure compliance with ISO 14001 requirements, with a view for systems certification by December 2006.

Cumulative from July 2005 to June 2006										
Manufacturing	Man hours	First aid	Non-lost time injury	Lost time injury	Occ disease	Fatal	Current DIFR	DIFR as at June 2005	Environ incident	Site insp
DPI	1 173 411	38	8	4	–	–	0.68	1.22	–	23
Group Five Pipe	176 517	–	12	3	–	–	3.40		–	8
Vaal	876 548	37	7	2	2	–	0.46	2.38	–	2
Everite	2 207 799	17	28	10	4	1	1.00	0.43	–	19
	4 434 275	92	55	19	6	1	0.90	1.06	–	52

MANUFACTURING

Manufacturing experienced one fatal injury in the period under review. The fatal injury was experienced at Everite after an employee entered a restricted area under moving machinery where he became entangled in the rollers. Employees were informed of the circumstances surrounding the incident and restricted access controls reinforced with operational staff. Department of Labour investigations were completed and no legal actions arose.

The majority of the disabling injuries were hand and finger injuries of which two involved amputations of digits. Resources have been strengthened to deal with the poor injury experience records. These include additional and improved training programmes for all levels of employees, direct management interventions in the form of physical contacts and inspections.

Group Five Pipe experienced three disabling injuries during March and April 2006. Management interventions have been identified and implemented and have resulted in immediate improvements. No serious injuries were reported in May and June 2006.

Occupational health

Extensive dust sampling surveys were performed at Everite by the environmental laboratories. Analysis indicated some silica exposures above stated legal limits. Aggressive enforcement of PPE requirements was implemented and monitored by line management.

A wet-process mechanical sweeper was introduced into the process in November 2005, which has greatly reduced dust levels during cleaning.

Occupational health personnel continue to carry out their medical surveillance programmes in an effort to catch any instances of silicosis as early as possible.

Asbestos

Over the past three years, Everite has further improved the technology and process management for Nutec fibre-cement products made without asbestos. This included the introduction of Polyvinyl alcohol (PVA) as the reinforcing fibre in certain moulded goods and profiled sheets. Cellulose remains the fibre of choice for flat sheet products.

However, after more than 20 years of research and development in alternative fibres, the Nutec challenge has shifted from technology to market conditions. The South African building materials market is performing strongly but, paradoxically, Everite's withdrawal from the asbestos-cement building materials market has left the door open for a dramatic increase in imports of these products from Zimbabwe and Mozambique.

Everite has lobbied government to implement the long-promised ban on the sale of new asbestos-cement products. At the time of writing, draft banning regulations had been published for comment and Everite is hopeful that the minister of DEAT would promulgate the final regulations in the second half of 2006.

The proposed regulations would allow a six-month phase-out period before the manufacture and sale of asbestos-containing materials is banned. Unfortunately, market competition will inevitably increase during this period as neighbouring countries exploit this brief "window of opportunity".

It is important to emphasise that Everite has not lobbied for a ban on the sale of new asbestos-cement products because the products themselves are not considered dangerous or harmful to health. Indeed, Everite has long demonstrated that high-density asbestos-cement products can be safely used under strictly controlled conditions. However, the company asserted to government that such conditions do not apply for imported asbestos-cement products. These are sold without any consideration for worker and consumer health in South Africa. The products are not labelled, contractors are not educated on appropriate work procedures, nor are dust-free cutting tools available.

Inevitably, the careless use of imported asbestos products creates conditions where workers and consumers could be exposed to unnecessary health risks.

The company also asserted that government, being a signatory to the 1998 declaration of the multi-stakeholder National Asbestos Summit (in which it was agreed to phase out the use of asbestos as soon as possible), had a moral obligation to support the South African manufacturers such as Everite that had, in good faith, replaced asbestos-cement building products with asbestos-free alternatives.

Although Everite ceased using asbestos as a raw material in December 2002, it continues to manage the legacy associated with the use of asbestos since 1942.

All former employees are encouraged to report for an annual medical. Those who show signs of an asbestos-related disease are referred to the Compensation Commissioner in terms of the Compensation for Occupational Injuries and Diseases Act. Everite runs its own clinics across the country to cater for these medical evaluations. Costs of approximately R2 million are spent on this on an annual basis.

In terms of a Constitutional Court ruling, the Commissioner has relieved the company of any further legal liability to the affected employees. Group Five does, however, supplement the pension paid to employees, who have a set level of asbestos-related disease, on a voluntary basis. Given the occupational exposure profile for different kinds of asbestos at the company's plants and the latency period

(1) *Employees are assessed for their reactions to heights prior to working on high structures* **(2)** *Everite has been producing asbestos-free fibre-cement products since 2002*

(1)

(2)

associated with various asbestos-related diseases, the company anticipates that the incidence of reportable asbestos-related disease amongst current and former employees is currently at its peak (with a total of approximately 600 cases) and will start to decline within a few years. The long-term maximum financial exposure associated with the company's voluntary disability pension policy has been currently actuarially valued at R18,6 million and provided for in full.

Silica exposure

Excessive exposure to crystalline silica can lead to lung disease. Silica in this form is present in sand, sandstone and granite. It may also be present in clay, shale and slate. Products such as fibre-cement, concrete and mortar also contain crystalline silica.

- *Legal requirements*

  The OHS Act lists crystalline silica respirable dust in Table 1 of the Hazardous Chemical Substances (HCS) Regulations, thus acknowledging the high risk of health damage as a result of uncontrolled exposure. The Time Weighted Average Occupational Exposure Limit (TWA OEL) in the HCS Regulations is set at 0,4mg/m^3. Everite voluntarily complies with stricter TWA OEL of 0,1 mg/m^3 prescribed in the Mine Health and Safety Act of 1996, which is likely to be imposed in keeping with world standards when the HCS regulations are revised.

- *Controls*

  A health risk assessment for exposure is required because silica is listed in the HCS Regulations. This includes:

  - Measurement of dust levels
  - Elimination of silica is the preferred method of control, but is often not practical
  - Control of dust through ventilation, extraction and wet dust suppression is advised and control at source is therefore the optimal approach
  - Use of respiratory protective equipment should be based on the measured dust levels in the workplace

- *Health surveillance*

  Regular exposure requires that workers undergo medical surveillance, which includes:

  - Initial medical assessment followed by periodic assessments
  - Respiratory questionnaire
  - Lung function testing and possibly X-rays

- *Management of silica risks*

  At Vaal, all employees undergo an annual medical examination. Due to the strong correlation between the incidence of TB and silicosis, TB is carefully monitored and Directly Observed Therapy (DOT) implemented for those who are infected. Only one new case of silicosis was reported during the year under review.

Rare milkwood trees were protected by strict environmental regulations at the Bondi Beach development, KwaZulu-Natal, south coast

Regular silica measurements at Everite confirm that crystalline silica levels are routinely within the voluntary TWA OEL of 0,1 mg/m³. Occasional sampling of site working procedures confirms that these levels are not exceeded if site personnel observe the handling instructions described in product literature.

All Everite employees undergo health checks at least every five years, but with increasing frequency with length of service. No cases of silicosis have been detected at Everite.

Environmental incidents

No incidents were reported and business units have earmarked ISO 14001 certification as a strategic objective for F2007. The Group Five SHE system is currently under review to determine areas for improvement to ensure ISO 14001 criteria is achieved.

- A decision has been taken to close the Everite waste dump two years ahead of schedule. No more dumping will take place after December 2006 and immediately thereafter the site will be rehabilitated as per the record of agreement with DEAT
- Rehabilitation of the Everite club site continues and by December 2006 a single layer of soil will be in place over the entire area. There will be no more exposed asbestos
- The Vaal quarry site has been poorly managed for the last few years and dumping of fill material was found to be haphazard, uncontrolled and outside of specified levels/limits. Earthmoving actions at the end of 2005 have restored the site to acceptable levels and dumping of material is now strictly controlled and routinely monitored. Discussions have been held with a view to possible co-operation with the neighbour with regard to covering, seeding and the appropriate use of the site. The available life of this site is calculated to February 2009

INFRASTRUCTURAL DEVELOPMENTS

Infrastructural Developments' operations and maintenance businesses had an overall increase in DIFR from 1.26 in June 2005 to 1.63 in June 2006. The injuries experienced were mainly the result of motor vehicle accidents due to driver error from third parties. Intertoll do implement driver and vehicle controls in an attempt to reduce risk exposures.

Occupational health

Initial assessments of airflow in the tollbooths performed by occupational hygienists in 2004 indicated no significant areas of concern. A follow-up survey is due in the second half of 2006 to determine if there has been any deterioration of ventilation conditions within tollbooths.

Environmental incidents

WSSA is ISO 14001 certified and continues to maintain environmental controls and reporting systems compliant with the required ISO 14001 standards.

Intertoll continues to manage spillage clean-ups along their routes. Records are maintained by Intertoll, but not reflected in Group Five statistics, as the spillages are not a direct result of the group's operations.

Infrastructural Developments – Operations and maintenance businesses

Operations and maintenance	Man hours	First aid	Non-lost time injury	Lost time injury	Occ disease	Fatal	Current DIFR	DIFR as at June 2005	Environ-mental incident	Site inspec-tion
WSSA (July 2005 to Apr 2006)	1 758 207	2	4	9	0	0	1.02	1.21	0	7
Intertoll Africa	824 061	3	15	12	0	0	2.91	1.37	2	11
Total	2 582 268	5	19	21	0	0	1.63	1.26	2	18

SHE training conducted during the year ended 30 June 2006	Group Five employees
Health and safety representatives	385
Legal liability and responsibility at all levels	61
First aid	151
Scaffolding	176
Fire fighting	87
Task specific – including welding, torch cutting and use of breathing apparatus	699

Note: *Over and above this, all employees and sub-contractors attend SHE induction before commencing work on a Group Five project. The amount of people trained over a 12-month period is dependent on the number of people passing through these particular projects.*

QUALITY

Group Five has implemented a quality policy and it is the group's intention to ensure that all business units are ISO 9001/2000 compliant by the end of 2006. Most business units have been certified and have quality assurance managers in place.

TRAINING

All business units provide employees with induction training before employees commence work. Manufacturing plants provide re-induction for employees on return from the annual Christmas break.

Task specific training required by legislation for operators of lifting equipment is enforced as per the legislated requirements.

Ongoing training programmes are established to promote a level of competence that will reduce risk exposures by ensuring persons exposed to the hazards are capable of operating within acceptable safe practices.

Course material is under development to align it with the Group Five SHE system, OHSAS 18001 and ISO 14001 requirements. The materials will be submitted to the CETA and will be registered for use within the group for the core competency training of managers. Internal training requirements within the organisation are the responsibility of each business unit.

The Group Five SHE system provides documented controls and a manual to assist sub-contractors. Additionally, business units operating in the construction sector take an active role in developing sub-contractors.

ACCOLADES

Group Five business units continue to receive awards within their fields of excellence in SHE performance. (Refer page 18.)

INFORMATION GATHERING

In F2006 SHEQ managers focused efforts on improving the content and accuracy of statistical reporting. A vast improvement has been seen and further progress was made by developing an internal electronic reporting format available to all stakeholders through the Group Five intranet.

Sub-contractor information continues to be a challenge, but has also improved.

There is now a substantial database from which meaningful injury analysis can be extracted to identify potentially high-risk areas and identify root causes to focus efforts on reducing injuries. Historic information is used in compiling risk assessments and identifying training needs identification.

THE WAY FORWARD

Group Five remains committed to a policy of quality assurance and complying with ISO 9001/2000, occupational health and safety complying with OHSAS 18001 specifications and environmental requirements particular to ISO 14001.

Increased inspections and consistently low injury rates reflect management's commitment to controlling all activities of production for the benefit of employees, clients and stakeholders who may be affected by the group's operations.

The corporate office has had their management systems certified to OHSAS 18001 and plans to follow up with ISO 14001 certification by the end of calendar 2006. All business units have committed to the same objective and have established audit programmes.

Group Five will continue to improve the internal SHE standards and controls, striving to integrate relevant management systems and ensuring implementation that will add value to its operations.

Full time SHEQ officers are employed on construction sites

GLOBAL REPORTING INITIATIVE INDEX

Group Five's annual report complies, to a large extent, with the Global Reporting Initiative (GRI) guidelines. The table in this section contains references to the general GRI indices. No sector GRI indices have been developed by the GRI for companies operating within the construction industry, thus making some of the guidelines less relevant.

The GRI encourages all organisations to start using its guidelines. An incremental approach is welcomed and has been confirmed to be part of both the organisation and GRI's learning process. The status reference indicates whether the benchmark has been addressed to an extent within the annual report. The group's weakest area of monitoring and reporting relates to the Environmental performance indicators and certain of the Social performance indicators. These measurements will become a focus area for the group in the short to medium term.

	GRI benchmark	Status	Page numbers
1	**Vision and Strategy**		
1.1	Vision and Strategy for the group	Addressed	4, 55
	Contribution to sustainable development	Addressed	115
1.2	Statement from the chief executive officer	Addressed	87
2	**Profile**		
2.1	Name of reporting organisation	Addressed	Group Five Limited
2.2	Major products and/or services, including brands	Addressed	10
2.3	Operational structure of the organisation	Addressed	12
2.4	Description of major divisions, operating companies, susbidiaries and joint ventures	Addressed	9, also refer financial statements, page 192
2.5	Countries in which organisations operation's are located	Addressed	14
2.6	Nature of ownership; legal form	Addressed	Refer financial statements, page 192
2.7	Nature of markets served	Addressed	10, 14, 35
2.8	Scale of reporting organisations		
	number of employees	Addressed	131
	products produced/services offered	Addressed	10, 35
	net sales	Addressed	Refer financial statements, page 192
	capitalisation by debt and equity	Addressed	Refer financial statements, page 192
	value added	Addressed	116
	segmental reporting	Addressed	Refer financial statements, page 192
2.9	List of stakeholders	Addressed	117, 118, also refer financial statements, page 192
2.10	Contact for the report	Addressed	1

	GRI benchmark	Status	Page numbers
2.11	Reporting period	Addressed	Financial year ending 30 June 2006
2.12	Date of most previous report	Addressed	Financial year ending 30 June 2005
2.13	Boundaries/Scope of the report	Addressed	Content page
2.14	Significant changes in size, structure, ownership, product/services since last report	Addressed	92
2.15	Basis for reporting that could compromise comparability	Addressed	92, also refer financial statements, page 192
2.16	Explanations regarding the restatement of information	Addressed	Financial statements, page 192
2.17	Decisions not to apply GRI principles or protocols	Not applicable	2
2.18	Criteria/definitions	Addressed	2
2.19	Significant changes from previous years in measurement methods	Not applicable	
2.20	Policies and internal practices to enhance and provide assurance about the accuracy, completeness and internal reliability of the report	Addressed	67, 124, also refer financial statements, page 192
2.21	Policies and current practices with regard to providing independent assurance for the report	Addressed	Financial statements only, page 192
2.22	Additional information and reports on sustainability	Addressed	115
3	**Governance Structure and Management Systems**		
3.1	Governance structure of the organisation	Addressed	124
3.2	Percentage of the board of directors that are independent, non-executive directors	Addressed	124
3.3	Process for determining board member expertise regarding the provision of strategic direction	Not addressed	
3.4	Board-level processes	Addressed	124
3.5	Link between executive compensation and the achievement of objectives	Not addressed	
3.6	Organisational structure and key responsibilities with regard to social policies	Addressed	124
3.7	Mission and value statements and code of conduct	Addressed	4, 75
3.8	Mechanisms for shareholders to provide recommendations	Addressed	1, feedback@g5.co.za, annual general meeting, Direct and indirect communication media
3.9	Identification of major stakeholders	Addressed	118, also refer financial statements, page 192
3.10	Stakeholder consultation	Addressed	118
3.11	Stakeholder consultation information	Addressed	118
3.12	Use of stakeholder consultation information	Addressed	118
3.13	Precautionary approach	Not addressed	
3.14	Economic, environmental and social charters	Not addressed	
3.15	Industry and business association memberships	Addressed	49

	GRI benchmark	Status	Page numbers
3.16	Policies and/or systems for managing upstream and downstream impacts	Not addressed	
3.17	Approach to managing indirect impacts	Not addressed	
3.18	Decisions regarding location and change in operations	Addressed	55
3.19	Programmes and procedures pertaining to economic, environmental performance	Addressed	167
3.20	Certification status	Addressed	167
EC	**Economic Performance Indicators**		
	Core indicators – Customers		
EC1	Net sales	Addressed	Financial statements, page 192
EC2	Geographic breakdown of markets	Addressed	11
	Core indicators – Suppliers		
EC3	Cost of all goods, material and services purchased	Addressed	Financial statements, page 192
EC4	Percentage of contracts paid in accordance with agreed terms	Not addressed	Financial statements, page 192
	Core indicators – Employees		
EC5	Total payroll and benefits	Addressed	Financial statements, page 192
	Core indicators – Providers of Capital		
EC6	Distributions to providers of capital	Addressed	Financial statements, page 192
EC7	Increase/decrease in retained earnings at end of period	Addressed	Financial statements, page 192
	Core indicators – Public Sector		
EC8	Taxes paid	Addressed	Financial statements, page 192
EC9	Subsidies received broken down by country/region	Not applicable	
EC10	Donations to community, civil society and other groups	Addressed	148
	Additional indicators – Suppliers		
EC11	Suppliers broken down by organisation and country	Addressed in terms of BEE status only	148
	Additional indicators – Public Sector		
EC12	Total spent on non-core business infrastructure spend	Not applicable	
	Indirect Economic Impacts		
EC13	Organisation indirect economic impacts	Not addressed	
EN	**Environmental performance indicators**		
	Core indicators – Materials		
EN1	Total materials use other than water by type	Not addressed	
EN2	Percentage of materials used that are wastes from sources external to the reporting organisation	Not addressed	
	Core indicators – Energy		
EN3	Direct energy use segmented by primary source	Not addressed	
EN4	Indirect energy use	Not addressed	
	Core indicators – Water		
EN5	Total water use	Not addressed	
	Core indicators – Biodiversity		
EN6	Location and size of land owned, leased or managed in biodiversity rich habitats	Not addressed	

	GRI benchmark	Status	Page numbers
EN7	Description of major impacts on biodiversity associated with activities and/or products and services in terrestrial, freshwater and marine environments	Not addressed	
	Core indicators – Emissions, Effluents and Waste	Not addressed	
EN8	Greenhouse gas emissions		
EN9	Use and emissions of ozone-depleting substances	Not addressed	
EN10	Nox, Sox and other significant emissions by type	Not addressed	
EN11	Total amount of waste by type and destination	Not addressed	
EN12	Significant discharges by type	Not addressed	
EN13	Significant spills of chemicals, oils and fuels	Not addressed	
	Core indicators – Products and Services		
EN14	Significant environmental impacts of principle products and services	Addressed regarding asbestos and silica use only	167
EN15	Percentage of weight of products sold that is reclaimable	Not addressed	
	Core indicators – Compliance		
EN16	Incidents of, and fines for non-compliance	Not addressed	
	Additional indicators – Energy		
EN17	Initiatives to use renewable energy sources	Not addressed	
EN18	Energy consumption footprint	Not addressed	
EN19	Other indirect energy use	Not addressed	
	Additional indicators – Water		
EN20	Water sources and related ecosystems	Not addressed	
EN21	Annual withdrawals of ground and surface water	Not addressed	
EN22	Total recycling and re-use of water	Not addressed	
	Additional indicators – Biodiversity		
EN23	Total amount of land owned, leased or managed	Not addressed	
EN24	Amount of impermeable surfaces	Not addressed	
EN25	Impacts of activities and operations on protected and sensitive areas	Not addressed	
EN26	Changes to natural habitats resulting from activities	Not addressed	
EN27	Protecting and restoring native ecosystems	Not addressed	
EN28	Number of IUCN list species	Not addressed	
EN29	Business units with plans in and around protected or sensitive areas	Not addressed	
	Additional indicators – Emissions, Effluents and Waste		
EN30	Other relevant indirect greenhouse emissions	Not addressed	
EN31	Products, transport, imports or exports deemed hazardous	Not addressed	
EN32	Water sources and related ecosystems significantly affected by discharges of water and run-off	Not addressed	
	Additional indicators – Suppliers		
EN33	Performance of suppliers relative to environmental components	Not addressed	
	Additional indicators – Transport		
EN34	Significant environmental impacts of transport used for logistical purposes	Not addressed	

	GRI benchmark	Status	Page numbers
	Additional indicators – Overall		
EN35	Total environmental expenditure by type	Not addressed	
LA	**Social Performance Indicators – Labour Practices and Decent Work**		
	Core indicators – Employment		
LA1	Breakdown of workforce	Addressed	131
LA2	Employment creation and average turnover	Not addressed	
	Core indicators – Labour/Management Relations		
LA3	Trade union representations	Addressed	131
LA4	Policy and procedures involving information, consulting and negotiation with employees over changes in the reporting organisation's operations	Addressed	131
	Core indicators – Health and Safety		
LA5	Occupational accidents and diseases	Addressed	167
LA6	Health and safety committees	Addressed	124, 167
LA7	Injury, lost days and absentee rates	Addressed	167
LA8	HIV/AIDS policies or programmes	Addressed	138
	HIV/AIDS policy	Addressed	138
	Strategy for managing HIV/AIDS	Addressed	138
	Stakeholder involvement	Addressed	138
	HIV/AIDS prevalence rates	Addressed	138
	HIV/AIDS expenditure	Addressed	138
	HIV/AIDS awareness/education/training	Addressed	138
	Voluntary counselling and testing	Addressed	138
	HIV prevention interventions	Addressed	138
	Programme to assist members who suffer from AIDS	Addressed	138
	Provision of anti-retrovirals	Addressed	138
	Core indicators – Training and Education		
LA9	Training per employee level, gender and ethnic spirit	Addressed	138
	Core indicators – Diversity and Opportunity		
LA10	Equal opportunity policies or programmes and their monitoring	Addressed	138
LA11	Composition of senior management and corporate governance bodies	Addressed	138
	Additional indicators – Employment		
LA12	Employee benefits beyond those legally mandated	Not addressed	
	Additional indicators – Labour/Management Relations		
LA13	Provision for formal worker presentation in decision-making	Not addressed	
	Additional indicators – Health and Safety		
LA14	Compliance with the ILO guidelines for occupational health management systems	Addressed	167 (OHSAS)
LA15	Formal agreements with trade unions covering health and safety at work and proportion of workforce covered by such agreements	Not addressed	
	Additional indicators – Training and Education		
LA16	Programmes to support the continued employability of employees and to manage career endings	Not addressed	

	GRI benchmark	Status	Page numbers
LA17	Policies and programmes for skills management	Addressed	148
HR	**Social Performance Indicators – Human Rights**		
	Core indicators – Strategy and Management		
HR1	Policies, guidelines, corporate structure and procedures to deal with all aspects of human rights	Not addressed	
HR2	Evidence of consideration of human right impacts as part of investment and procurement	Not addressed	
HR3	Policies and procedures to evaluate and address human rights performance within the supply chain and contractors	Not addressed	
	Core indicators – Non-discrimination		
HR4	Global policy and procedures/programmes preventing all forms of discriminations in operations	Addressed	131
	Core indicators – Freedom of Association and Collective Bargaining		
HR5	Freedom of association policy	Addressed	131
	Core indicators – Child Labour		
HR6	Child labour policy	Not addressed	
	Core indicators – Forced and Compulsory Labour		
HR7	Forced and compulsory labour policy	Not addressed	
	Additional indicators – Strategy and Management		
HR8	Employee training on policies and practices concerning all aspects of human rights relevant to operations	Not addressed	
	Additional indicators – Disciplinary Practices		
HR9	Appeal practices	Not addressed	
HR10	Non-retaliation policy and employee grievance system	Not addressed	
	Additional indicators – Security Practices		
HR11	Human rights training for security personnel	Not addressed	
	Additional indicators – Indigenous Rights		
HR12	Description of policies, guidelines and procedures to address the needs of indigenous people	Not addressed	
HR13	Description of jointly management community grievance mechanisms/authority	Not addressed	
HR14	Share of operating revenues from the area of operations that are redistributed to local communities	Not addressed	
SO	**Social Performance Indicators – Society**		
	Core indicators – Community		
SO1	Policies to manage impacts on communities	Not addressed	
	Core indicators – Bribery and Corruption		
SO2	Policy/procedures for addressing bribery and corruption	Addressed	67
	Core indicators – Political Contributions		
SO3	Description of policy, procedures/management systems for managing political lobbying and contributions	Addressed	67
	Additional indicators – Community		
SO4	Awards received	Addressed	18
	Additional indicators – Political Contributions		
SO5	Money paid to political parties	Not applicable	

	GRI benchmark	Status	Page numbers
	Additional indicators – Competition and Pricing		
SO6	Court decisions regarding cases pertaining to anti-trust and monopoly regulations	Not applicable	
SO7	Policies/procedures for preventing anti-competitive behaviour	Not addressed	
PR	**Social Performance Indicators – Product Responsibility**		
	Core indicators – Customer, Health and Safety		
PR1	Policy for preserving customer health and safety during use of products and services	Addressed to the extent of Everite's asbestos legacy	167
	Core indicators – Products and Services		
PR2	Policy/procedures related to product information and labelling	Not addressed	
	Core indicators – Respect for Privacy		
PR3	Policy/procedures related to customer privacy	Not addressed	
	Additional indicators – Customer, Health and Safety		
PR4	Non-compliance with customer health and safety regulations	Not addressed	
PR5	Complaints upheld regarding the health and safety of products and services	Not addressed	
PR6	Voluntary code compliance, product labels, or awards with respect to social and/or environmental responsibility	Not addressed	
	Additional indicators – Products and Services		
PR7	Non compliance concerning product information and labeling	Not addressed	
PR8	Policies/procedures and mechanisms related to customer satisfaction	Not addressed	
	Additional indicators – Advertising		
PR9	Policies/procedures for adherence to standards and voluntary codes relates to advertising	Not addressed	
	Additional indicators – Respect for Privacy		
PR10	Breaches of advertising and marketing regulations	Not addressed	
PR11	Complaints regarding breaches of customer privacy	Not addressed	
	Additional indicators deemed relevant by the Group – Corporate Social Investment		
1	Social elements of CSI policy	Addressed	148
2	Structure and relevant CSR responsibilities	Addressed	148
	Additional indicators deemed relevant by the Group – Internal Social Performance		
1	Staff turnover	Not addressed	
2	Remuneration of group executive directors and board of directors	Addressed	124
3	Ratio of male versus female	Addressed	131
4	Employee profile per hierarchy level	Addressed	131
	Additional indicators deemed relevant by the Group – Performance to Society		
1	Contributions to charitable causes, community investments and commercial sponsorships	Addressed	148

CONTENTS

FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 30 June 2006

The directors are responsible for the maintenance of proper accounting records and the preparation, integrity and fair presentation of the financial statements of Group Five Limited and its subsidiaries. The financial statements, presented on pages 192 to 246 have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act in South Africa and include amounts based on judgements and estimates made by management. The directors also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. Whilst operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management and the internal auditors that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the group will not be a going concern in the foreseeable future based on forecasts and available cash resources. The viability of the group is supported by the financial statements.

The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers Inc., who have been given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers Inc.'s unqualified audit report is presented on page 191.

The financial statements were approved by the board of directors on 7 August 2006 and are signed on its behalf by:

D Paizes
Chairman

MH Lomas
Chief Executive Officer

PS O' Flaherty
Chief Financial Officer

STATEMENT OF COMPLIANCE BY THE COMPANY SECRETARY

for the year ended 30 June 2006

I certify that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act 61 of 1973 in respect of the year ended 30 June 2006, and all such returns are true, correct and up-to-date.

N Kekana

7 August 2006

REPORT OF THE INDEPENDENT AUDITORS

for the year ended 30 June 2006

TO THE MEMBERS OF GROUP FIVE LIMITED

We have audited the annual financial statements and group annual financial statements of Group Five Limited set out on pages 192 to 246 for the year ended 30 June 2006. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Statements of International Auditing Standards. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group at 30 June 2006, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc.
Director: FJ Lombard
Registered Auditor

Johannesburg

7 August 2006

NATURE OF BUSINESS

Group Five Limited is an investment holding company with interests in the building, infrastructural and engineering sectors. The company does not trade and all of its activities are undertaken through its subsidiaries, joint ventures and associates.

GROUP RESULTS

The consolidated income statement for the year is set out on page 196. Segmental information as approved by the directors relating to the business of the group is set out on page 200.

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

The interest in subsidiaries, joint ventures and associated companies, are set out on pages 241 to 244 of this annual report. During the year the group disposed of its 25% interest in Group Five Saudi Pipe joint venture for $1 million and its 50% interest in Water and Sanitation Services South Africa (Pty) Ltd for R2 million. The group also ceased all operations in India and has, subsequent to year-end, concluded negotiations to dispose of its Vaal Sanitaryware operations and its 40% joint venture interest in DPI Holdings (Pty) Ltd for R107 million.

In terms of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", results and financial position of these operations are reflected as discontinued operations in both the current and prior year.

CAPITAL EXPENDITURE

Details on capital expenditure by business is set out on page 203 of this report.

SHARE CAPITAL

The authorised and issued share capital is as follows:

Authorised:

150 000 000 ordinary shares of no par value.

Issued:

99 724 556 ordinary shares of no par value (2005: 73 573 023).

On 29 September 2005, as detailed below, shareholders approved an issue of shares amounting to approximately 26.1% of the issued share capital, after such issue, in terms of a Black Economic Empowerment ownership transaction. Of these shares 25 323 433 are held as treasury stock; in addition, 482 905 (2005: 1 677 305) are held by the share incentive trust at 30 June 2006.

The BEE ownership transaction comprised three components, namely:

- a broad-based employee scheme, comprising an aggregate 0.6% of the enlarged share capital of the company;
- a black management share scheme comprising 3.9% of the enlarged share capital of the company; and
- the iLima Mvela Transaction comprising 21.6% of the enlarged share capital of the company.

The BEE ownership transaction is summarised in the table below:

	Total		
	Number of shares	Transaction value[1] R'000	Shareholding (post issue of new shares)
Employee Schemes	**4 366 109**	**69 989**	**4.5%**
Broad-based scheme	575 000	9 217	0.6%
Black management scheme	3 791 109	60 772	3.9%
The Participants jointly	**20 957 325**	**335 946**	**21.6%**
iLima	10 478 662	167 973	10.8%
Mvelaphanda	10 478 662	167 973	10.8%
Total	**25 323 434**	**405 935**	**26.1%**

[1] Based on a share price of 16,03 cents per share, being the 30-day VWAP (ex dividend) as at the close of business on 4 August 2005.

An overview of the participants in the BEE transaction are set out below:

- The Employee Schemes

  The Employee Schemes described below are for the benefit of Group Five permanent employees who are employed by Group Five's wholly-owned businesses. None of the current directors of Group Five are beneficiaries of the Black Management Scheme, or the Broad-based Scheme. As a result of this, over 90% of all permanent employees of Group Five and its wholly-owned subsidiaries will eventually have contractual rights to own Group Five shares.

  – **The Black Management Scheme (3.9% of enlarged share capital)**
    The Black Management Scheme operates for the benefit of selected current and future senior black management of Group Five. Further details are included on page 231.

  – **The Broad-based Scheme (0.6% of enlarged share capital)**
    The Broad-based Scheme operates for the benefit of the permanent employees of Group Five who do not participate in the Black Management Scheme. This scheme thus operates for the benefit of both black and white permanent employees employed by Group Five and its wholly-owned subsidiaries, who at date of allocation on 1 October 2005 numbered 3 969, of whom approximately 90% were black. The allocation was made by means of a once-off issue of an aggregate of 575 000 Group Five shares for no consideration and with no vesting conditions.

- The Participants

  – **The iLima Group of Companies (10.8% of enlarged share capital)**
    The iLima Group of Companies (of which iLima Projects (Pty) Ltd is a subsidiary) is a diversified BEE group of companies and trusts that are led and managed by previously disadvantaged individuals. It has interests in construction, mining, financial services and telecommunications industries and is a member of the Bombela consortium which has been awarded the rights to the Gautrain project. The iLima Group of Companies represents the interests of youth in the form of the Qulani Trust, women involved in construction in Yanda development and the Zeranza Trust, and black entrepreneurs with interests in an all black, experienced, operating infrastructural developments company, being iLima Group staffed, inter alia, with professionals with a high level of skills in infrastructure financing and engineering.

  – **The Mvelaphanda Group of Companies (10.8% of enlarged share capital)**
    On 13 December 2004, the merger of the business and assets of Mvelaphanda Holdings and Rebserve Holdings Limited was implemented, and Mvelaphanda Holdings became the controlling shareholder of Rebserve. Rebserve changed its name to Mvelaphanda and has become a broad-based, black-controlled, owned and managed diversified group. Mvelaphanda has combined the stature and reputation of Mvelaphanda Holdings' brand and team, as well as the prospects of substantial BEE deal flow, with the cash-generative base and proven operational and transactional skills of the former Rebserve and its management, all of whom have been retained by the group. The strategy of the group is to be invested in businesses covering a range of facilities management, technical and professional, and support services extending countrywide. Mvelaphanda is listed on the JSE, in the Industrial Service Sector.

The mechanics of the Black Management Scheme are set out on page 231 and the mechanics of the iLima Mvela Transaction are set out below:

- in terms of an Initial Subscription agreement, on 1 November 2005 each Participant subscribed for 10 478 662 Group Five shares (being Subscription Shares), at the Subscription Price of one cent per share;

- in terms of the internal funding mechanism, the Group Five shares were notionally issued at a 10% discount to the Reference Price of R16,03 per Group Five share, which equated to approximately R14,43 per Group Five share. These shares are notionally subject to a fixed funding rate over the approximate seven-year term of the scheme of 12% nominal per annum, compounded annually;

- in terms of a Forward Sale agreement, each Participant will sell to Group Five, with effect from 31 December 2013 (the end date), the number of Group Five shares held by such Participant, determined with reference to the formula set out below, at a purchase price of one cent per Group Five share.

$$\text{Number of Forward Sale Shares} = \frac{\text{Notional Funding Terminal Amount}}{\text{Market Value per Group Five share}}$$

save that where the end date occurs as a result of an event of default in relation to such Participant (as detailed in the above agreements) the number of Forward Sale Shares shall be equal to the total number of Subscription Shares held by such Participant on the end date;

- in terms of a Further Subscription Right (contained within the agreements), each Participant shall have the right, capable of being exercised during the 30 Business Day period succeeding the end date, on a single occasion and provided that no event of default has occurred in relation to such Participant (as detailed in the Subscription and Sale agreements), to subscribe for up to that number of Group Five shares as are equal to the number of Group Five shares sold by such Participant to Group Five in terms of the Forward Sale. These shares will be issued at a purchase price per Group Five share, equal to the market value thereof as at the date of exercise of the Further Subscription Right by such Participant; and
- in terms of the Distribution Subscription Obligation (contained within the agreements), each Participant is obliged to utilise the proceeds of all the cash distributions (and the proceeds of the distributions in specie converted to cash) received by such Participant from Group Five by virtue of such Participant's holding of Group Five shares, during the period between 1 November 2005 and the end date, to subscribe for Group Five shares at the market value thereof as at the date of such subscription.

SHAREHOLDER SPREAD

Details of shareholder categories are set out on page 245 of this report.

DIVIDENDS

On 7 August 2006, the directors declared a final dividend of 36 cents per ordinary share (2005: 32 cents). This brings the total dividend for the year to 56 cents (2005: 49 cents). In order to comply with the requirements of STRATE the relevant details are:

Event	Date
Last day to trade (cum-dividend)	Thursday, 21 September 2006
Shares to commence trading (ex-dividend)	Friday, 22 September 2006
Record date (date shareholders recorded in books)	Friday, 29 September 2006
Payment date	Monday, 2 October 2006

No share certificates may be dematerialised or rematerialised between Friday, 22 September 2006 and Friday, 29 September 2006, both dates inclusive.

DIRECTORS AND SECRETARY

The names of the directors appear on page 20 of this report. Mr SG Morris was appointed on 1 July 2005 and Mr WV Mavimbela on 20 February 2006. Ms NB Kekana was appointed the group's company secretary on 16 January 2006.

In terms of the company's Articles of Association, Baroness L Chalker and Messrs D Paizes and PS O'Flaherty retire by rotation. Being eligible they offer themselves for re-election.

DIRECTORS' SHAREHOLDINGS

At 30 June 2006, the number of ordinary shares held beneficially and non-beneficially by the current directors was 69 005 and nil respectively (2005: 69 005 and nil respectively). There has been no material change in their holdings between the year-end and the date of this report. Details of directors' share options are set out on page 128.

BORROWING POWERS

In terms of the articles of association, the company has unlimited borrowing powers.

AUDITORS

PricewaterhouseCoopers Inc. will continue in office in accordance with section 270(2) of the Companies Act.

POST BALANCE SHEET EVENT

As noted previously, subsequent to year-end the group concluded the sale of its 100% interest in the business of Vaal Sanitaryware and its 40% interest in DPI Holdings (Pty) Ltd for R107 million. All conditions precedent have been fulfilled other than Competition Board approval for the sale of DPI Holdings (Pty) Ltd, which is expected before 30 September 2006. A profit of approximately R20 million will arise on this transaction in the next financial year.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The group adopted IFRS during the period under review. The impact on the prior periods earnings and financial position is reflected on pages 212 to 215. Set out below are new accounting standards and interpretations which will be applicable going forward. Other than IFRIC 8, none are expected to have a significant effect on the results of operations. (Refer note 1.19 (d).)

Accounting Standard/Interpretation	Type	Effective date
IFRS 6 (AC 143) – Exploration for and Evaluation of Mineral Resources	New Statement	Financial year commencing on or after 1 January 2006
IFRS 1 (AC 138), First-time Adoption of International Financial Reporting Standards and IFRS 6 (AC 143) (Amendment), Exploration for and Evaluation of Mineral Resources	Amendment	Financial year commencing on or after 1 January 2006
IAS 19 (AC 116) – Employee Benefits	Amendment	Financial year commencing on or after 1 January 2006
IAS 21 (AC 112) – Net Investment in a Foreign Operation	Amendment	Financial year commencing on or after 1 January 2006
IAS 39 (AC 133) and IFRS 4 (AC 141) – Financial Guarantee Contracts	Amendment	Financial year commencing on or after 1 January 2006
IAS 39 (AC 133) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions	Amendment	Financial year commencing on or after 1 January 2006
IAS 39 (AC 133) – The Fair Value Option	Amendment	Financial year commencing on or after 1 January 2006
IFRIC Interpretation 4 (AC 437) – Determining whether an Arrangement Contains a Lease	New Interpretation	Financial year commencing on or after 1 January 2006
IFRIC Interpretation 5 (AC 438) – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	New Interpretation	Financial year commencing on or after 1 January 2006
IFRIC Interpretation 6 (AC 439) – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	New Interpretation	Financial year commencing on or after 1 January 2006
IFRIC Interpretation 7 (AC 440) – Applying the Restatement Approach under IAS 29 (AC 124) Financial Reporting in Hyperinflationary Economies	New Interpretation	Financial year commencing on or after 1 March 2006
IFRIC Interpretation 8 (AC 441) – Scope of IFRS 2	New Interpretation	Financial year commencing on or after 1 May 2006
IFRIC Interpretation 9 (AC 442) – Reassesment of Embedded Derivatives	New Interpretation	Financial year commencing on or after 1 June 2006
AC 503 – Accounting for Black Economic Empowerment ("BEE") transactions	New South African Statement	Financial year commencing on or after 1 May 2006
IFRS 7 (AC 144), Financial Instruments: Disclosures, and a complementary Amendment to IAS 1 (AC 101), Presentation of Financial Statements – Capital Disclosures	New Statement	Financial year commencing on or after 1 January 2007

GROUP INCOME STATEMENT

for the year ended 30 June 2006

(R'000)	Notes	Group 2006	Group 2005
Revenue	2	**5 864 721**	4 508 285
Construction costs and cost of sales		**(5 472 817)**	(4 246 424)
Gross profit	3	**391 904**	261 861
Manufacturing distribution costs		**(84 215)**	(88 360)
Corporate administrative costs		**(66 890)**	(57 815)
Operating profit	3	**240 799**	115 686
Fair value adjustment relating to investment properties		**26 538**	6 690
Fair value adjustment relating to investment in service concessions		**1 385**	35 702
Once-off expense relating to issue of shares in terms of BEE broad-based scheme		**(6 420)**	–
Share of profit of associates		**–**	1 640
Profit before finance costs and taxation		**262 302**	159 718
Finance costs	4	**(30 329)**	(25 922)
Profit before taxation		**231 973**	133 796
Taxation	5	**(62 754)**	(26 199)
Profit after taxation from continuing operations		**169 219**	107 597
(Loss)/profit for the year from discontinued operations		**(21 074)**	22 220
Profit for the year		**148 145**	129 817
Allocated as follows:			
Equity shareholders of Group Five Limited		**143 555**	127 919
Minority interest		**4 590**	1 898
		148 145	129 817
Earnings per share – basic (cents)	6.1	**195,3**	181,9
Fully diluted earnings per share (cents)	6.2	**177,4**	175,2
Earnings per share from continuing operations (cents)	6.3	**224,0**	150,3
Fully diluted earnings per share from continuing operations (cents)	6.4	**203,5**	144,8
Dividends per share (cents) – based on the years to which they relate		**56,0**	49,0

GROUP FIVE

GROUP BALANCE SHEET

at 30 June 2006

(R'000)	Notes	Group 2006	Group 2005
ASSETS			
Non-current assets			
Property, plant and equipment	7.1	**513 138**	398 097
Investment property	7.2	**9 656**	111 552
Investment in associates	8	**1 669**	6 409
Investment in service concessions	9	**59 701**	88 894
Deferred taxation	14	**208 470**	70 715
Total non-current assets		**792 634**	675 667
Current assets			
Inventories	10	**296 268**	181 249
Contracts in progress	11	**844 279**	404 291
Trade and other receivables	12	**1 919 555**	1 013 924
Cash and cash equivalents	23	**712 999**	326 731
Total current assets		**3 773 101**	1 926 195
Non-current assets classified as held for sale	26	**338 667**	249 442
Total assets		**4 904 402**	2 851 304
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Stated capital		**296 142**	287 803
Retained earnings		**400 477**	295 556
Other components of equity		**(15 362)**	13 553
		681 257	596 912
Minority interest		**1 762**	4 306
Total equity		**683 019**	601 218
Non-current liabilities			
Interest-bearing borrowings	13	**126 305**	109 374
Provision for employment obligations	19	**35 364**	39 260
Total non-current liabilities		**161 669**	148 634
Current liabilities			
Trade and other payables	15	**3 330 053**	1 597 491
Provision for liabilities and charges	16	**150 334**	129 474
Current taxation payable		**56 955**	23 972
Current portion of long-term borrowings	13	**110 476**	62 122
Short-term borrowings		**119 762**	21 572
Bank overdrafts	13.23	**143 849**	148 616
Total current liabilities		**3 911 429**	1 983 247
Liabilities directly associated with non-current assets classified as held for sale	26	**148 285**	118 205
Total liabilities		**4 221 383**	2 250 086
Total equity and liabilities		**4 904 402**	2 851 304

GROUP CASH FLOW STATEMENT

for the year ended 30 June 2006

(R'000)	Notes	Group 2006	Group 2005
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before working capital changes	20	**307 099**	140 528
Working capital changes	21	**294 164**	121 242
Cash generated from operations		**601 263**	261 770
Finance costs		**(30 329)**	(25 922)
Taxation paid	22	**(155 716)**	(64 802)
Dividends paid		**(38 634)**	(32 552)
Cash effects of operating activities		**376 584**	138 492
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**(90 024)**	(87 902)
Acquisition of investments		**(7 134)**	(21 820)
Advances to associates		**–**	(3 898)
Proceeds on disposal of property, plant and equipment		**37 050**	70 797
Proceeds on disposal of investment property		**73 900**	–
Proceeds on disposal of investments		**33 933**	33 097
Cash effects of investing activities		**47 725**	(9 726)
CASH FLOW FROM FINANCING ACTIVITIES			
Long- and short-term borrowings raised		**208 666**	27 903
Long- and short-term borrowings repaid		**(149 598)**	(74 186)
Issue of shares		**8 339**	8 376
Cash effects of financing activities		**67 407**	(37 907)
Cash (utilised in)/generated from discontinued operations	26	**(100 681)**	20 357
Net increase in cash and cash equivalents		**391 035**	111 216
Cash and cash equivalents at beginning of year		**178 115**	66 899
Cash and cash equivalents at end of year	23	**569 150**	178 115

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2006

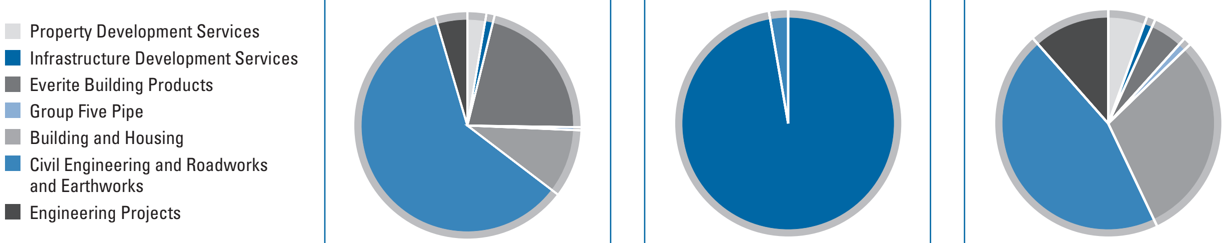
	Number of ordinary shares issued	Number of shares held as treasury shares	Number of shares held by share trust	Net shares issued to public	Stated capital R'000	Foreign currency translation reserve	Distributable reserves R'000	Minority interest R'000	Total share-holders' equity R'000
Balance at 30 June 2004 – as previously reported	**73 573 023**	**(4 453 432)**	**(559 123)**	**68 560 468**	**278 931**	**–**	**257 992**	**11 447**	**548 370**
Effect of the adoption of IFRS on prior periods	–	–	–	–	496	–	(57 801)	–	(57 305)
Balance at 30 June 2004 – restated	**73 573 023**	**(4 453 432)**	**(559 123)**	**68 560 468**	**279 427**	**–**	**200 191**	**11 447**	**491 065**
Transfer of shares from treasury stock	–	4 453 432	(4 453 432)	–	–	–	–	–	–
Issue of shares in terms of share schemes	–	–	3 335 250	3 335 250	6 884	–	–	–	6 884
Share option costs	–	–	–	–	1 492	–	–	–	1 492
Translation differences arising from foreign operations	–	–	–	–	–	13 553	–	–	13 553
Net profit for the year	–	–	–	–	–	–	127 919	1 898	129 817
Purchase of minorities	–	–	–	–	–	–	–	(9 039)	(9 039)
Dividends paid	–	–	–	–	–	–	(32 554)	–	(32 554)
Balance at 30 June 2005 – restated	**73 573 023**	**–**	**(1 677 305)**	**71 895 718**	**287 803**	**13 553**	**295 556**	**4 306**	**601 218**
Issue of shares to share trust in terms of share scheme	828 100	–	(828 100)	–	–	–	–	–	–
Issue of shares from share trust	–	–	2 022 500	2 022 500	4 317	–	–	–	4 317
Issue of shares in terms of BEE ownership transaction	25 323 433	–	(25 323 433)	–	–	–	–	–	–
Costs related to BEE ownership transaction	–	–	–	–	(7 109)	–	–	–	(7 109)
Share option costs	–	–	–	–	11 131	–	–	–	11 131
Translation differences arising from foreign operations	–	–	–	–	–	(28 915)	–	–	(28 915)
Net profit for the year	–	–	–	–	–	–	143 555	4 590	148 145
Purchase of minorities	–	–	–	–	–	–	–	(7 134)	(7 134)
Dividends paid	–	–	–	–	–	–	(38 634)	–	(38 634)
Balance at 30 June 2006	**99 724 556**	**–**	**(25 806 338)**	**73 918 218**	**296 142**	**(15 362)**	**400 477**	**1 762**	**683 019**

Foreign Currency Translation Reserve

The foreign currency translation reserve is the result of exchange differences arising from the translation of the group's foreign operations to the functional currency of the holding company, being Rand.

for the year ended 30 June 2006

For reporting purposes, the group is organised on a worldwide basis into seven major reporting segments as set out below.

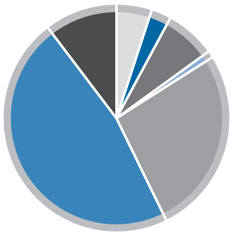
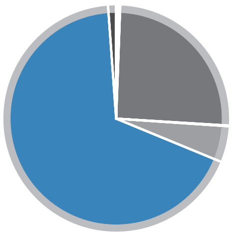
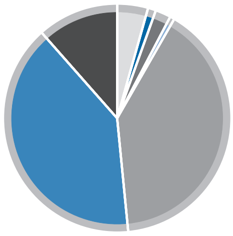
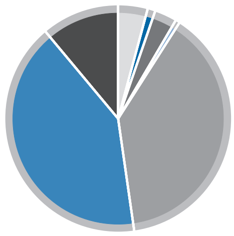


	BALANCE SHEET					
	Property, plant and equipment and investment property		Other non-current assets (excluding non-current assets classified as held for sale)		Current assets	
Business	**2006 R'000**	2005 R'000	**2006 R'000**	2005 R'000	**2006 R'000**	2005 R'000
Infrastructural Developments	**20 269**	117 730	**59 701**	88 894	**207 532**	141 016
Property Development Services	**14 106**	113 475	**–**	–	**169 787**	105 467
Infrastructure Development Services	**6 163**	4 255	**59 701**	88 894	**37 745**	35 549
Manufacturing	**112 929**	113 941	**–**	–	**183 546**	134 112
Everite Building Products	**111 820**	113 688	**–**	–	**149 156**	133 786
Group Five Pipe	**1 109**	253	**–**	–	**34 390**	326
Construction	**389 596**	277 978	**1 669**	6 409	**2 669 024**	1 324 336
Building and Housing	**50 755**	49 302	**–**	–	**922 502**	746 455
Civil Engineering and Roads and Earthworks	**314 887**	208 878	**1 669**	6 409	**1 393 502**	472 302
Engineering Projects	**23 954**	19 798	**–**	–	**353 020**	105 579
Total	**522 794**	509 649	**61 370**	95 303	**3 060 102**	1 599 464

A description of the products and/or services provided by the segments is disclosed under the operational and financial review contained within this annual report.

Note: Graphs represent 2006 values only.

BALANCE SHEET

Total assets (excluding non-current assets classified as held for sale)		Non-current liabilities (excluding liabilities directly associated with non-current assets classified as held for sale)		Current liabilities		Total liabilities (excluding liabilities directly associated with non-current assets classified as held for sale)	
							
2006 R'000	2005 R'000	**2006 R'000**	2005 R'000	**2006 R'000**	2005 R'000	**2006 R'000**	2005 R'000
287 502	347 641	**941**	8 233	**203 903**	84 495	**204 844**	92 728
183 893	218 942	**378**	6 119	**162 093**	45 397	**162 471**	51 516
103 609	128 699	**563**	2 114	**41 810**	39 098	**42 373**	41 212
296 475	248 053	**41 213**	15 040	**105 110**	91 587	**146 323**	106 627
260 976	247 474	**41 053**	14 808	**81 325**	90 461	**122 378**	105 269
35 499	579	**160**	232	**23 785**	1 126	**23 945**	1 358
3 060 289	1 608 722	**119 515**	125 361	**3 401 612**	1 634 577	**3 521 127**	1 759 938
973 256	795 755	**8 293**	39 538	**1 488 556**	1 051 363	**1 496 849**	1 090 901
1 710 059	687 590	**109 365**	77 618	**1 485 568**	456 810	**1 594 933**	534 428
376 974	125 377	**1 857**	8 205	**427 488**	126 404	**429 345**	134 609
3 644 266	2 204 416	**161 669**	148 634	**3 710 625**	1 810 659	**3 872 294**	1 959 293

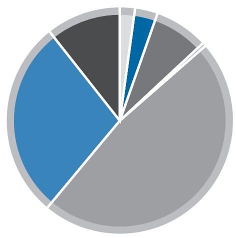
for the year ended 30 June 2006

For reporting purposes, the group is organised on a worldwide basis into seven major reporting segments as set out below.

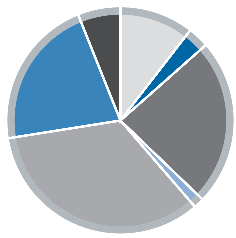
INCOME STATEMENT

Property Development Services
Infrastructure Development Services
Everite Building Products
Group Five Pipe
Building and Housing
Civil Engineering and Roadworks and Earthworks
Engineering Projects

Revenue



Operating profit



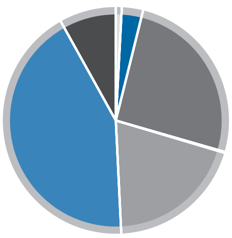
Business	Revenue 2006 R'000	Revenue 2005 R'000	Operating profit 2006 R'000	Operating profit 2005 R'000
Infrastructural Developments	**316 217**	227 290	**32 450**	17 378
Property Development Services	**126 970**	94 773	**25 244**	11 240
Infrastructure Development Services	**189 247**	132 517	**7 206**	6 138
Manufacturing	**472 975**	446 308	**60 651**	36 157
Everite Building Products	**450 736**	431 776	**57 109**	34 369
Group Five Pipe	**22 239**	14 532	**3 542**	1 788
Construction	**5 075 529**	3 834 687	**147 698**	62 151
Building and Housing	**2 788 466**	2 268 610	**81 467**	44 158
Civil Engineering and Roads and Earthworks	**1 662 700**	1 051 679	**51 650**	(9 712)
Engineering Projects	**624 363**	514 398	**14 581**	27 705
Total	**5 864 721**	4 508 285	**240 799**	115 686

A description of the products and/or services provided by the segments is disclosed under the operational and financial review contained within this annual report.

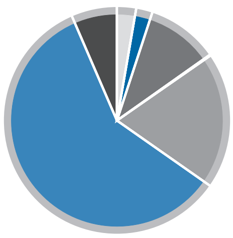
Note: Graphs represent 2006 values only.

CASH FLOW

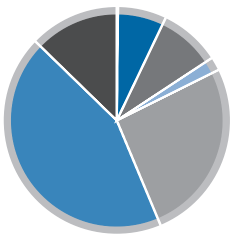
Depreciation



Capital expenditure



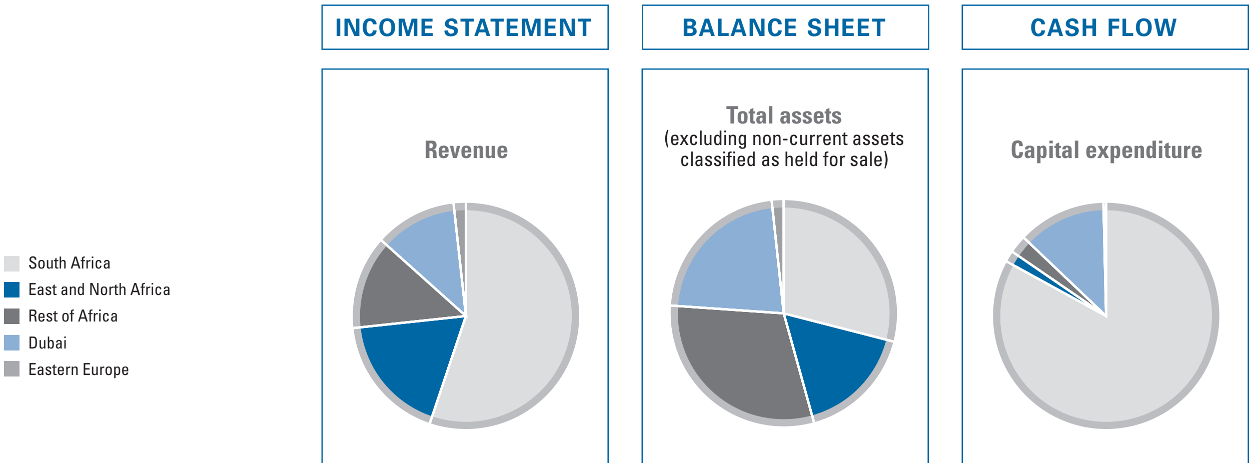
Number of employees



Depreciation 2006 R'000	Depreciation 2005 R'000	Capital expenditure 2006 R'000	Capital expenditure 2005 R'000	Number of employees 2006	Number of employees 2005
2 748	2 512	13 438	17 420	726	692
603	313	7 246	15 983	18	15
2 145	2 199	6 192	1 437	708	677
18 230	22 360	27 402	20 794	1 082	797
18 127	22 313	27 026	20 723	886	757
103	47	376	71	196	40
49 896	31 363	225 153	163 286	8 426	7 675
13 912	9 319	51 480	35 860	2 662	3 394
30 251	20 260	156 390	124 124	4 460	2 861
5 733	1 784	17 283	3 302	1 304	1 420
70 874	56 235	265 993	201 500	10 234	9 164

for the year ended 30 June 2006

The group's segments operate in five principal geographical areas of the world, as set out below.



Region	Income statement 2006 R'000	Income statement 2005 R'000	Balance sheet 2006 R'000	Balance sheet 2005 R'000	Cash flow 2006 R'000	Cash flow 2005 R'000
South Africa	**3 683 707**	3 063 146	**1 129 455**	1 504 672	**220 740**	170 662
East and North Africa	**882 319**	612 361	**619 760**	122 175	**4 210**	–
Rest of Africa	**647 947**	736 346	**1 007 633**	403 827	**6 754**	23 890
Dubai	**565 871**	63 439	**824 300**	114 951	**33 282**	6 754
Eastern Europe	**84 877**	32 993	**63 118**	58 791	**1 007**	194
Total	**5 864 721**	4 508 285	**3 644 266**	2 204 416	**265 993**	201 500

BASIS OF PRESENTATION

The group's primary format for reporting segment information is business segments and its secondary format is geographical segments based on the location of its operations.

Segment revenue and expenses: All segment revenue and expenses are directly attributable to the segments and are disclosed at the operating profit level.

Segment assets and liabilities: Segment assets include all operating assets used by a segment and consist principally of inventories, contracts in progress, receivables (net of allowances) and property, plant and equipment.

Segment liabilities include all operating liabilities and consist principally of accounts payable and provisions for liabilities and charges.

Segment assets and liabilities do not include income taxes (including deferred) nor bank balances/overdrafts as the group operates under a centralised cash management function.

Note: Graphs represent 2006 values only.

ACCOUNTING POLICIES

for the year ended 30 June 2006

1. PRINCIPAL ACCOUNTING POLICIES

These consolidated and company financial statements are the first published financial statements of the group prepared in accordance with International Financial Reporting Standards (IFRS). Consolidated and company financial statements until 30 June 2005 had been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP). SA GAAP differs in certain respects from IFRS. A reconciliation and description of the effects of the transition from SA GAAP to IFRS on the group's equity and net income are provided in notes 1.28 to 1.31.

The financial statements are prepared on the historical cost basis as modified principally by the revaluation of investments in service concessions, investment properties and mobile plant and equipment (only as relates to the initial adoption of International Accounting Standard (IAS) 16 "Property, Plant and Equipment," refer note 1.5(d)). The financial statements are prepared on a going concern basis. Set out below are the principal accounting policies used consistently throughout the group.

When preparing these financial statements in terms of IFRS, management has improved certain disclosures which has resulted in the comparative figures in respect of 2005 being restated to reflect such adjustments.

The consolidated financial statements include those of the holding company, its subsidiaries, joint ventures and associates. All financial results are consolidated with similar items on a line by line basis except for investments in associates which are included in the group's results as set out below:

1.1 Use of estimates

The preparation of the financial statements in conformity with International Financial Reporting Standards requires the group's management to make estimates and assumptions concerning the future, particularly as regards construction contract profit taking, provisions, arbitrations, claims and various fair value accounting policies. The resulting accounting estimates can, by definition, only approximate the actual results. Estimates and judgements 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.

1.2 Basis of consolidation

a) Subsidiaries

Subsidiaries, which are those entities in which the group has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies are consolidated. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal. Intra-group transactions are eliminated on consolidation.

b) Joint ventures

Joint ventures are those entities in which the group has joint control. The proportion of assets, liabilities, income and expenses and cash flows attributable to the interests of the group in jointly controlled entities has been incorporated in the consolidated financial statements under the appropriate headings. The results of joint ventures are included from the effective dates of acquisition and up to the effective dates of disposal.

c) Associates

Associates are those investments in which the group has a long-term interest and over which it exercises significant influence, but not control. The group's share of post-acquisition results of associates is included in the consolidated financial statements, using the equity accounting basis. Equity accounting involves recognising in the income statement the group's share of the associates' profit or loss for the year. The group's interest in associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates.

If impaired, the carrying value of the group's share of the underlying assets of associates is written down to its estimated recoverable amount in accordance with accounting policy 1.8 on impairment.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.3 Measurement currency and foreign currency translations

a) Functional currency

The financial results of each operation within the group are measured using the currency (functional currency) that best reflects the economic substance of the underlying events and circumstances relevant to that operation. The consolidated financial statements are presented in Rand.

b) Transactions and balances

Foreign currency transactions are translated into the measurement currency of the underlying entity using appropriate monthly weighted average rates of exchange. At year-end any unsettled assets or liabilities are translated into the measurement currency using month-end rates of exchange. Foreign exchange gains and losses resulting from the settlement and translations of such transactions are recognised in the income statement.

c) Foreign operations

The results of foreign operations are translated to Rands at an appropriate monthly weighted average rate of exchange during the year and are included in net profit. The assets and liabilities of foreign operations are translated to Rands at rates of exchange ruling at the end of the financial year. Gains or losses arising on translation of foreign operation's assets and liabilities to Rands at year-end are recognised in the statement of changes in equity as a foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. When adopting IAS 21 "The Effects of Changes in Foreign Exchange Rates" as at 1 July 2005, the IFRS 1 exemption was used, whereby IAS 21 cumulative translation gains at 30 June 2004 were set at zero.

1.4 Revenue recognition

Revenues relating to long-term contracts are accounted for using the percentage of completion method and are measured at the fair value of the consideration received or receivable and include variations and claims; the stage of completion is measured by reference to the relationship that contract costs incurred or significant activity achieved to date for work performed bears to the estimated total costs or total significant activity of the contract. Property sales are recognised when risks and rewards of ownership are transferred. Other revenue is recognised upon delivery of products and customer acceptance, if any, or performance of services, net of value added taxes and trade discounts, and after eliminating sales within the group.

Other income, which is not included in revenue, earned by the group is recognised on the following basis:

- Interest income – as it accrues (taking into account the effective yield on the asset)
- Dividend income – when the shareholder's right to receive payment is established
- Investment property and investments in concessions– fair value increases or decreases during the year

1.5 Property, plant and equipment and investment property

Property, plant and equipment and investment property consists of the following categories:

a) Properties:

Properties consist of the following:

- occupied property;
- investment property; and
- property development costs (disclosed as inventory).

The accounting for each category of properties is as follows:

- company occupied property is carried at cost less accumulated depreciation, other than land, which is not depreciated. Depreciation is calculated to write-off the cost of these properties over their expected useful life on a straight-line basis; generally, buildings are depreciated over 50 years; where a property's carrying amount is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount in line with accounting policy 1.8; gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in net profit;

- investment property, which is disclosed seperately, is property held to generate independent cash flows through rental or capital appreciation, is carried at fair value with changes in fair value included in profit; and
- property development costs held as inventory, which is property held for development and resale, is valued at the lower of cost and net realisable value.

b) Capital work in progress

Property, plant and equipment under construction is stated at cost and is not depreciated. The cost of self-constructed assets includes expenditure on materials, direct labour, an allocated proportion of project overheads and related borrowing costs. Assets are transferred from capital work in progress to an appropriate category of property, plant and equipment when commissioned and ready for its intended use.

c) Factory plant

Factory plant, including capitalised leased assets, are stated at cost less accumulated depreciation and impairment. Depreciation is calculated to write-off the cost of factory plant to its estimated residual value on a straight-line basis over its expected useful life. The adoption of IAS 16 during the period under review has required that, where factory plant comprises major components with different useful lives, these components are now accounted for and depreciated as separate items and residual values are re-assessed annually. This change in accounting policy has been applied retrospectively and the effect on prior period equity and net profit is reflected in notes 1.28 to 1.31. The expected useful lives are generally between 5 – 15 years. The estimated useful lives and residual values are reviewed annually.

d) Mobile plant and vehicles

Mobile plant and vehicles, including capitalised leased assets, were previously stated at cost less accumulated depreciation and impairment. The adoption of IAS 16, effective 1 July 2005, requires that where mobile plant and vehicles comprise major components with different useful lives, these components are now accounted for and depreciated as separate items and residual values are re-assessed annually. In adopting IAS 16 at 1 July 2005 to achieve this, the exemption under IFRS 1 was used whereby fair values for these assets were deemed as cost at 1 July 2004 and residual values were re-assessed at that date. Depreciation is calculated to write-off the value of mobile plant and vehicles to their estimated residual values on a straight-line basis over their expected useful lives. The expected useful lives are generally 5 years. The estimated useful lives and residual values are reviewed annually.

e) Computer equipment, and software development costs

Computer equipment, including capitalised leased assets, are stated at cost less accumulated depreciation and impairment. Depreciation is calculated to write-off the cost of these assets to their estimated residual values on a straight-line basis over their expected useful lives on a component basis. The expected useful lives are generally 3 years. The estimated useful lives and residual values are reviewed annually.

Software development costs that enhance and extend the benefits of computer software programs are recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

f) Furniture, fittings and other items

Furniture, fittings and other items are stated at cost less accumulated depreciation and impairment. Depreciation is calculated to write-off the cost of these assets to their estimated residual values on a straight-line basis over their expected useful lives on a component basis. The expected useful lives are generally 3-5 years. The estimated useful lives and residual values are reviewed annually.

g) Replacement and modification expenditure

Expenditure incurred to replace or modify a significant component of property, plant and equipment is capitalised and any remaining book value of the component replaced is written off immediately in the income statement. Other repair and maintenance expenditure is charged directly to the income statement as incurred.

The effect of the adoption of IAS 16 for categories 1.5 (e), (f) and (g) has been applied retrospectively and the effect on prior period equity and net profit is reflected in notes 1.28 to 1.31.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.6 Capitalisation of borrowing costs

Borrowing costs, incurred in respect of property developments or capital work in progress, that require a substantial period to prepare assets for their intended use, are capitalised up to the date that the development of the asset is ready for its intended use. Other borrowing costs are recognised directly in the income statement when incurred.

1.7 Investments in service concessions

These investments consist of interests in service concessions over which the group has neither control nor significant influence. These investments are recognised as financial assets and are carried at fair value with changes in fair value included in net profit.

1.8 Impairment of long-term assets

The group continually reviews its long-term assets which includes property, plant and equipment and investments and associates to assess recoverability from estimated future discounted cash flows. To the extent that the net carrying value of the long-term assets exceeds future discounted cash flows, a provision for impairment is made.

1.9 Leased assets

Where assets are acquired under finance lease agreements that transfer to the group substantially all the risks and rewards of ownership, their cash cost equivalent is capitalised. The capital element of the leasing commitment is disclosed under long-term liabilities. Lease rentals are treated as consisting of capital and interest elements, using the effective interest rate method.

1.10 Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Total rental obligations under operating leases are charged to the income statement on a straight-line basis over the period of the lease irrespective of the payment terms.

1.11 Inventories

Materials, consumable stores, work in progress and finished goods are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. In general, cost is determined on a first-in-first-out basis. The cost of manufactured goods includes direct expenditure and an appropriate proportion of manufacturing overheads. Provision is made for slow moving, obsolete and defective inventory.

1.12 Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and functions, or their ultimate purpose or use.

A group of contracts are treated as a single construction contract when the group of contracts are negotiated as a single package; the contracts are so interrelated that they are, in effect part of a single project with an overall profit margin and the contracts are performed concurrently or in a continuous sequence.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recovered. Contract costs on these contracts are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by using the percentage of completion method as set out in note 1.4. Costs are recognised in net profit as incurred. However, costs incurred in the year in connection with future activity on a contract are excluded and shown as contracts in progress. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where recognised revenue using the percentage of completion method exceeds billed work, the balance is also shown under contracts in progress. Where billed work exceeds recognised revenue using the percentage of completion method, the balance is shown as excess billings over work done, under trade and other payables.

1.13 Trade and other receivables

Trade and other receivables are stated at invoiced value less impairment.

1.14 Trade and other payables

Trade and other payables are stated at cost.

1.15 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise bank balances and cash with original maturities of three months or less and also include bank overdrafts repayable on demand. Cash and cash equivalents are reflected at year-end bank statement balance.

1.16 Short-term borrowings

Short-term borrowings are classified as such and reflect financial institution borrowings not repayable on demand.

1.17 Deferred taxation

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from depreciation on property, plant and equipment, various provisions, contracting allowances and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

1.18 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.19 Employee benefits

The accounting policies relating to employee benefits can be categorised into five areas, as follows:

a) Pension obligations

The group participates in a group defined benefit plan, a number of group defined contribution plans and a number of multi-employer industry plans. The pension plans are funded by payments from employees and by relevant group companies, taking account of the recommendations of independent qualified actuaries. All plans and their assets are managed in separate trustee administered funds. The plans are governed by the Pensions Fund Act.

The group's pension accounting costs for the defined contribution plans and multi-employer industry plans are limited to the annually determined contributions. For the defined benefit plan, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans annually. The pension obligation is measured as the present value of the estimated future cash outflows. Actuarial gains and losses are recognised immediately in net profit in the period in which they occur.

b) Post-employment obligations

One group company provides post-employment medical costs for certain of its retirees. The expected costs of these benefits are accrued over the period of employment using a methodology similar to that of defined benefit plans. A valuation of this obligation is carried out on a periodic basis by professionally qualified independent actuaries. The post-employment obligations are not funded.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.19 Employee benefits (continued)

c) Leave pay

Employee entitlements to annual leave are recognised when they accrue to employees. Full provision is made for the estimated liability for annual leave, as a result of services by employees, up to the balance sheet date.

d) Equity compensation benefits

Share options are granted to employees in terms of the schemes detailed in note 19.4. The net cost of share options, calculated as the difference between the fair value of such options at grant date and the price at which the options were granted, are expensed over their vesting periods.

Options exercised are fulfilled through an issue of shares from the share incentive scheme or through a repurchase and re-issue of shares by the group. The discount of R51 million arising on the issue of shares to the external BEE ownership consortium has been accounted for through equity in terms of the group's current accounting policies. However, IFRIC 8 "Scope of IFRS 2," issued in January 2006 and applicable for all financial years beginning on or after 1 May 2006, has concluded that these types of share issues fall within the scope of IFRS 2 and therefore the discount should be expensed immediately if there are no related performance conditions. This will be accounted for next year as a change in accounting policy. The R6,4 million arising on the issue of shares in terms of the broad-based scheme has been expensed immediately as they have been issued to employees and there are no vesting conditions.

In adopting IFRS 2 – "Share Based Payments" the exemption allowed under IFRS 1 was used whereby only option costs relating to options issued after 7 November 2002 that had not vested by 1 January 2005 have been accounted for. The effect on the prior period equity and earnings is disclosed in notes 1.28 to 1.31.

e) Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in provisions when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or
- past practice has created a valid expectation by employees that they will receive a bonus/profit sharing and amounts can be determined before the time of issuing the financial statements.

1.20 Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents (as defined), short-term borrowings, investments, trade and other receivables, trade and other payables and non-current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements or notes associated with each item.

1.21 Dividends paid

Dividends paid are recognised when declared by the board of directors.

1.22 Stated capital

Ordinary shares are classified as equity. Issued share capital is stated in the statement of changes in equity at the amount of the proceeds received less directly attributable issue costs. Cost of share options issued after 7 November 2002 have been charged to stated capital as described in note 1.19 above. The direct external costs incurred in concluding and approving the BEE transaction have been charged against share capital.

1.23 Segment information

Segment information is reported on both a business (primary) and geographical (secondary) basis. This approach is based on the manner in which segments are organised and managed as well as type of business. The basis of segmental reporting is set out on page 204.

1.24 Contingencies and commitments

Transactions are classified as contingent liabilities where the group's obligations depend on uncertain events and principally consist of contract specific third party obligations underwritten by banking institutions. Items are classified as commitments where the group commits itself to future transactions particularly in the acquisition of property, plant and equipment.

1.25 Related party transactions

All subsidiaries, joint ventures and associated companies of the group are related parties. A list of the major subsidiaries, joint ventures and associated companies are included on pages 241 to 244 of this annual report. All transactions entered into with subsidiaries and associated companies were under terms no more favourable than those with third parties and have been eliminated in the consolidated group accounts. Directors and senior management emoluments as well as transactions with other related parties are set out in note 25. There were no other material contracts with directors or officers.

1.26 Earnings per share

a) Earnings per share is based on attributable profit for the year divided by the weighted average number of ordinary shares in issue during the year. Fully diluted earnings per share is presented when the inclusion of potential ordinary shares has a dilutive effect on earnings per share.

b) Earnings per share from continuing operations is based on attributable profit for the year from continuing operations divided by the weighted average number of ordinary shares in issue during the year. Fully diluted earnings per share is presented when the inclusion of potential ordinary shares has a dilutive effect on earnings per share.

1.27 Headline earnings per share

Headline earnings per share is based on the same calculation as 1.26 (a) and 1.26 (b) above except that attributable profit specifically excludes items as set out in Circular 7/2002 "Interpretation of Statement of Investment Practice No 1: Headline Earnings" as issued by the South African Institute of Chartered Accountants. Fully diluted headline earnings per share is presented when the inclusion of potential ordinary shares has a dilutive effect on headline earnings per share.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.28 Transition to IFRS at 1 July 2004

(R'000)	SA GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Non-current assets	600 623	(12 419)	588 204
Property, plant and equipment	397 819	(34 378)	363 441
Investment property	89 615	–	89 615
Associates	872	–	872
Investments in service concessions	73 508	–	73 508
Deferred taxation	38 809	21 959	60 768
Current assets	1 504 376	–	1 504 376
Inventories	185 440	–	185 440
Contracts in progress	148 865	–	148 865
Trade and other receivables	911 107	–	911 107
Bank balances and cash	258 964	–	258 964
Non-current assets classified as held for sale	264 045	(13 001)	251 044
Total assets	2 369 043	(25 420)	2 343 624
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	536 923	(57 305)	479 618
Stated capital	278 931	496	279 427
Retained earnings	257 992	(57 801)	200 191
Other components of equity	–	–	–
Minority interest in subsidiaries	11 447	–	11 447
Total equity	548 370	(57 305)	491 065
Non-current liabilities	144 969	–	144 969
Interest-bearing borrowings	104 999	–	104 999
Provision for employment obligations	39 970	–	39 970
Current liabilities	1 565 917	20 000	1 585 917
Trade and other payables	1 139 212	–	1 139 212
Provision for liabilities and charges	111 453	20 000	131 453
Current taxation payable	50 130	–	50 130
Current portion of long-term borrowings	55 970	–	55 970
Short-term borrowings	17 088	–	17 088
Bank overdrafts	192 064	–	192 064
Liabilities directly associated with non-current assets classified as held for sale	109 787	11 885	121 672
Total liabilities	1 820 673	31 885	1 852 558
Total equity and liabilities	2 369 043	(25 420)	2 343 624

1.29 Transition to IFRS at 30 June 2005

(R'000)	SA GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Non-current assets	677 587	(1 920)	675 667
Property, plant and equipment	424 127	(26 030)	398 097
Investment property	111 552	–	111 552
Associates	6 409	–	6 409
Investments in service concessions	88 894	–	88 894
Deferred taxation	46 605	24 110	70 715
Current assets	1 926 195	–	1 926 195
Inventories	181 249	–	181 249
Contracts in progress	404 291	–	404 291
Trade and other receivables	1 013 924	–	1 013 924
Bank balances and cash	326 731	–	326 731
Non-current assets classified as held for sale	263 590	(14 148)	249 442
Total assets	2 867 372	(16 068)	2 851 304
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	644 956	(48 044)	596 912
Stated capital	285 815	1 988	287 803
Retained earnings	359 141	(63 585)	295 556
Other components of equity	–	13 553	13 553
Minority interest in subsidiaries	4 306	–	4 306
Total equity	649 262	(48 044)	601 218
Non-current liabilities	148 634	–	148 634
Interest-bearing borrowings	109 374	–	109 374
Provision for employment obligations	39 260	–	39 260
Current liabilities	1 963 247	20 000	1 983 247
Trade and other payables	1 597 491	–	1 597 491
Provision for liabilities and charges	109 474	20 000	129 474
Current taxation payable	23 972	–	23 972
Current portion of long-term borrowings	62 122	–	62 122
Short-term borrowings	21 572	–	21 572
Bank overdrafts	148 616	–	148 616
Liabilities directly associated with non-current assets classified as held for sale	106 229	11 976	118 205
Total liabilities	2 218 110	31 976	2 250 086
Total equity and liabilities	2 867 372	(16 068)	2 851 304

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.30 Transition to IFRS for the year ended 30 June 2005

(R'000)	SA GAAP	Effect of transition to IFRS	IFRS
Operating profit	117 248	(1 562)	115 686
Fair value adjustment relating to investment properties	6 690	–	6 690
Fair value adjustment relating to investment in service concessions	35 702	–	35 702
Share of profits of associates	1 640	–	1 640
Profit before finance costs and taxation	161 280	(1 562)	159 718
Finance costs	(25 922)	–	(25 922)
Profit before taxation	135 358	(1 562)	133 796
Taxation	(28 350)	2 151	(26 199)
Profit after taxation from continuing operations	107 008	589	107 597
Profit for the year from discontinued operations	28 590	(6 370)	22 220
Profit for the year	135 598	(5 781)	129 817
Allocated as follows			
Equity shareholders of Group Five Limited	133 700	(5 781)	127 919
Minority interest	1 898	–	1 898
	135 598	(5 781)	129 817

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.31 Reconciliation of equity as a result of the transition to IFRS as described by category of change

The post-tax effect resulting from the adoption of IFRS on comparative reporting periods is set out below.

	R'000 2005	R'000 2004
Total shareholders' equity at 30 June as previously reported	649 261	548 370
Adjusted for:		
• Net effect of share options granted to employees over their vesting period (IFRS 2 – "Share Based Payments") for all options granted after 7 November 2002 that had not vested by 1 January 2005 (previously this cost was accounted for through equity)	577	144
• Change in depreciation as a result of adoption of IAS 16 – "Property, Plant and Equipment" which now requires depreciation of items of property, plant and equipment by major component as well as an annual re-assessment of residual values (in adopting this policy an exemption under IFRS 1 was used whereby fair value was used as deemed cost at 1 July 2004 for mobile plant and equipment)	(52 550)	(57 449)
• Net effect of gains and losses arising on translation of foreign entities assets and liabilities in the statement of changes in equity as a foreign currency translation reserve. (In adopting this policy an exemption under IFRS 1 was used whereby cumulative translation gains at 30 June 2004 were set at zero)	3 930	–
Shareholders' equity at 30 June as restated	601 218	491 065

	Group	
(R'000)	**2006**	2005
2. REVENUE		
Revenue, excluding value added taxation, comprises primarily:		
2.1 recognised revenue including variations and claims on construction contracts calculated using the percentage of completion method;		
2.2 value of property sales according to signed agreements of sale; and		
2.3 invoiced value of goods and services supplied.		
3. OPERATING PROFIT		
Operating profit is stated after crediting:		
3.1 Profit on disposal of property, plant and equipment	**–**	31 393
and after charging:		
3.2 Foreign exchange (gains)/losses – net	**(6 292)**	10 069
3.3 Auditors' remuneration	**5 923**	3 906
Audit fees	**3 335**	2 578
Fees for other services	**2 588**	1 328
3.4 Depreciation and amortisation	**70 874**	56 235
Owner occupied land and buildings	**418**	581
Factory plant	**14 134**	12 425
Mobile plant and vehicles – purchased	**18 135**	13 313
Mobile plant and vehicles – leased	**7 486**	10 383
Computer equipment and software development costs – purchased	**11 574**	9 784
Computer equipment and software development costs – leased	**15 653**	7 763
Furniture, fittings and other items	**3 474**	1 986
3.5 Rentals under operating leases	**23 420**	10 983
Land and buildings	**18 840**	5 523
Other equipment	**4 580**	5 460
3.6 Remuneration other than to employees	**2 705**	3 870
Management services	**396**	278
Technical services	**2 309**	3 592
3.7 Material costs	**1 119 952**	831 265
3.8 Subcontractor costs	**2 397 817**	1 736 199

(R'000)	Group 2006	2005
4. FINANCE COSTS		
Interest received:		
Bank balances	**4 324**	–
Interest paid:		
Bank overdraft	**(15 349)**	(10 738)
Other borrowings	**(26 956)**	(18 697)
Total	**(37 981)**	(29 435)
Less: capitalised	**7 652**	3 513
Finance costs per income statement	**(30 329)**	(25 922)
Interest to the value of R7,6 million (2005: R3,5 million) was capitalised to developments in progress.		
5. TAXATION		
South African normal taxation		
Current taxation	**–**	(705)
– current year	**–**	(705)
Deferred taxation	**137 755**	7 796
– current year	**137 755**	9 089
– reduction in tax rate	**–**	(1 293)
Foreign taxation (including withholding tax)		
Current taxation	**(200 509)**	(32 332)
– current year	**(111 201)**	(32 332)
– prior year	**(89 308)**	–
Share of associates' taxation	**–**	(958)
	(62 754)	(26 199)

(R'000)	Group 2006	Group 2005
5. TAXATION (continued)		
Reconciliation of normal taxation rate	**%**	%
South African normal taxation rate	**29.0**	30.0
Adjusted for:		
– Decrease in opening deferred tax due to reduction in South African normal taxation rate	**–**	0.7
– Tax at rates in lower tax jurisdictions	**(3)**	(7.5)
– Tax losses not accounted for as no tax relief available	**18.8**	–
– Tax losses utilised and not accounted for in previous years	**(56.3)**	(3.6)
– Tax paid in respect of prior years	**38.5**	–
Effective rate of taxation	**27.0**	19.6
	R'000	R'000
Estimated taxation losses available for set-off against future taxable income	**390 380**	671 058
Potential taxation relief at current taxation rates	**113 210**	194 607

This is dependent on sufficient taxable income being earned in future by subsidiaries concerned. The potential tax losses have been fully accounted for in the current year (2005: R57 674).

No secondary taxation on companies (STC) was payable on dividends declared and approved during the current period under review as the group has unutilised STC credits of R5,6 million (2005: R49 million) carried forward.

(R'000)	Attributable profit R'000	Shares '000	Earnings per share (cents)
6. EARNINGS PER SHARE			
6.1 Earnings per share – basic			
For the year ended 30 June 2006			
Shares outstanding 1 July 2005		71 896	
Weighted average number of shares issued during the year		1 600	
Income available to shareholders	**143 555**	**73 496**	**195,3**
For the year ended 30 June 2005			
Shares outstanding 1 July 2004		68 560	
Weighted average number of shares issued during the year		1 769	
Income available to shareholders	**127 919**	**70 329**	**181,9**

(R'000)	Group 2006	Group 2005
6. EARNINGS PER SHARE (continued)		
6.2 Fully diluted earnings per share		
Income available to shareholders (R'000)	**143 555**	127 919
Weighted average number of shares issued during the year (as per basic earnings per share calculation) ('000)	**73 496**	70 329
Adjusted for:		
– Inclusion of dilutive shares held by share trusts ('000)	**1 217**	2 676
– Inclusion of dilutive shares in terms of iLimaMvela ownership transaction (refer pages 192 to 194)	**6 190**	–
Adjusted weighted average number of shares ('000)	**80 903**	73 005
Fully diluted earnings per share (cents)	**177,4**	175,2
6.3 Earnings per share from continuing operations		
Profit after tax from continuing operations	**169 219**	107 597
Less: attributable to minority interest	**(4 590)**	(1 898)
Income available to shareholders from continuing operations	**164 629**	105 699
Weighted average number of shares ('000)	**73 496**	70 329
Earnings per share from continuing operations (cents)	**224,0**	150,3
6.4 Fully diluted earnings per share from continuing operations		
Profit after tax from continuing operations	**169 219**	107 597
Less: attributable to minority interest	**(4 590)**	(1 898)
Income available to shareholders from continuing operations	**164 629**	105 699
Adjusted weighted average number of shares ('000)	**80 903**	73 005
Fully diluted earnings per share from continuing operations (cents)	**203,5**	144,8
6.5 Headline earnings per share		
Attributable profit	**143 555**	127 919
Adjusted for:		
– Profit on disposal of property, plant and equipment (after tax)	**–**	(21 975)
– Fair value adjustment relating to investment property (after tax)	**(16 850)**	(5 088)
– Losses on disposal of discontinued operations	**15 254**	–
Headline earnings	**141 959**	100 856
Weighted average number of shares ('000)	**73 496**	70 329
Headline earnings per share (cents)	**193,2**	143,4
6.6 Fully diluted headline earnings per share		
Headline earnings	**141 959**	100 856
Adjusted weighted average number of shares ('000)	**80 903**	73 005
Fully diluted headline earnings per share (cents)	**175,5**	138,1

	Group	
(R'000)	**2006**	2005
6. EARNINGS PER SHARE (continued)		
6.7 Headline earnings per share from continuing operations		
Income available to shareholders from continuing operations	**164 629**	105 699
Adjusted for headline items	**(1 596)**	(27 063)
Headline earnings from continuing operations	**163 033**	78 636
Weighted average number of shares ('000)	**73 496**	70 329
Headline earnings per share from continuing operations (cents)	**221,8**	111,8
6.8 Fully diluted headline earnings per share from continuing operations		
Income available to shareholders from continuing operations	**164 629**	105 699
Adjusted for headline items	**(1 596)**	(27 063)
Headline earnings from continuing operations	**163 033**	78 636
Adjusted weighted average number of shares ('000)	**80 903**	73 005
Fully diluted headline earnings per share from continuing operations (cents)	**201,5**	107,7
7. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY		
7.1 Property, plant and equipment		
Total property, plant and equipment		
Cost		
Cost at beginning of the year – restated	**813 151**	753 702
Cost at beginning of the year as previously reported	**–**	818 438
Effect of the adoption of IAS 16	**–**	(64 736)
Additions	**263 379**	186 253
Disposals	**(109 216)**	(126 804)
At the end of the year	**967 314**	813 151
Accumulated depreciation and amortisation		
Depreciation and amortisation at the beginning of the year – restated	**(415 054)**	(390 261)
Depreciation and amortisation at the beginning of the year as previously reported	**–**	(420 694)
Effect of the adoption of IAS 16	**–**	30 433
Current year charge	**(70 874)**	(56 235)
Disposals	**31 752**	31 442
At the end of the year	**(454 176)**	(415 054)
Net book value	**513 138**	398 097

(R'000)	Group 2006	Group 2005
7. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (continued)		
7.1 Property, plant and equipment (continued)		
Owner occupied land and buildings		
Cost		
At the beginning of the year	**32 250**	51 759
Additions	**3 763**	–
Disposals	**(991)**	(19 509)
At the end of the year	**35 022**	32 250
Amortisation		
At the beginning of the year	**(20 144)**	(19 563)
Current year charge	**(418)**	(581)
Disposals	**293**	–
At the end of the year	**(20 269)**	(20 144)
Net book value	**14 753**	12 106
A full list of the group's land and buildings is maintained at the registered office.		
Capital work in progress		
Cost		
At the beginning of the year	**33 313**	81 065
Additions	**20 889**	19 967
Transfer to other items of plant and equipment	**(48 565)**	(67 719)
At the end of the year	**5 637**	33 313
Factory plant		
Cost		
Cost at the beginning of the year as restated	**160 024**	132 070
Cost at the beginning of the year as previously reported	**–**	196 806
Effect of the adoption of IAS 16	**–**	(64 736)
Additions	**32 090**	50 761
Disposals	**–**	(22 807)
At the end of the year	**192 114**	160 024
Accumulated depreciation		
Accumulated deprecation at the beginning of the year as restated	**(76 040)**	(80 040)
Accumulated depreciation at the beginning of the year as previously reported	**–**	(101 122)
Effect of the adoption of IAS 16	**–**	21 082
Current year charge	**(14 134)**	(12 425)
Disposals	**–**	16 425
At the end of the year	**(90 174)**	(76 040)
Net book value	**101 940**	83 984

	Group	
(R'000)	**2006**	2005
7. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (continued)		
7.1 Property, plant and equipment (continued)		
Mobile plant and vehicles – purchased		
Cost		
Cost at the beginning of the year as restated	**353 046**	315 322
Cost at the beginning of the year as previously reported	**–**	315 322
Effect of the adoption of IAS 16	**–**	–
Additions	**33 680**	37 724
Disposals	**(28 852)**	–
At the end of the year	**357 874**	353 046
Accumulated depreciation		
Depreciation and amortisation at the beginning of the year as restated	**(207 630)**	(194 317)
Accumulated depreciation at the beginning of the year as previously reported	**–**	(194 317)
Effect of the adoption of IAS 16	**–**	–
Current year charge	**(18 135)**	(13 313)
Disposals	**1 329**	–
At the end of the year	**(224 436)**	(207 630)
Net book value	**133 438**	145 416
Mobile plant and vehicles – leased		
Cost		
Cost at the begining of the year as restated	**106 388**	48 378
Cost at the beginning of the year as previously reported	**–**	48 378
Effect of the adoption of IAS 16	**–**	–
Additions	**89 728**	58 010
Disposals	**–**	–
At the end of the year	**196 116**	106 388
Accumulated depreciation		
Depreciation and amortisation at the beginning of the year as restated	**(36 487)**	(26 104)
Accumulated depreciation at the beginning of the year as previously reported	**–**	(26 104)
Effect of the adoption of IAS 16	**–**	–
Current year charge	**(7 486)**	(10 383)
Disposals	**–**	–
At the end of the year	**(43 973)**	(36 487)
Net book value	**152 143**	69 901

(R'000)	Group 2006	Group 2005
7. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (continued)		
7.1 Property, plant and equipment (continued)		
Computer equipment, software and development Costs – purchased		
Cost		
Cost at the beginning of the year as restated	**35 621**	44 715
Cost at the beginning of the year as previously reported	**–**	44 715
Effect of the adoption of IAS 16	**–**	–
Additions	**52 427**	3 884
Disposals	**(26 476)**	(12 978)
At the end of the year	**61 572**	35 621
Accumulated depreciation		
Accumulated depreciation at the beginning of the year as restated	**(24 574)**	(26 362)
Accumulated depreciation at the beginning of the year as previously reported	**–**	(26 362)
Effect of the adoption of IAS 16	**–**	–
Current year charge	**(11 574)**	(9 784)
Disposals	**26 625**	11 572
At the end of the year	**(9 523)**	(24 574)
Net book value	**52 049**	11 047
Computer equipment, software and development Costs – leased		
Cost		
At the beginning of the year as restated	**71 672**	56 758
At the beginning of the year as previously reported	**–**	56 758
Effect of the adoption of IAS 16	**–**	–
Additions	**13 868**	14 914
Disposals	**–**	–
At the end of the year	**85 540**	71 672
Accumulated depreciation		
At the beginning of the year as restated	**(33 067)**	(25 304)
At the beginning of the year as previously reported	**–**	(34 655)
Effect of the adoption of IAS 16	**–**	9 351
Current year charge	**(15 653)**	(7 763)
Disposals	**–**	–
At the end of the year	**(48 720)**	(33 067)
Net book value	**36 820**	38 605

(R'000)	Group 2006	Group 2005
7. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (continued)		
7.1 Property, plant and equipment (continued)		
Furniture and fittings – purchased		
Cost		
Cost at the beginning of the year as restated	**20 837**	23 635
Cost at the beginning of the year as previously reported	**–**	23 635
Effect of the adoption of IAS 16	**–**	–
Additions	**16 934**	993
Disposals	**(4 332)**	(3 791)
At the end of the year	**33 439**	20 837
Accumulated depreciation		
Accumulated depreciation at the beginning of the year as restated	**(17 109)**	(18 571)
Accumulated depreciation at the beginning of the year as previously reported	**–**	(18 571)
Effect of the adoption of IAS 16	**–**	–
Current year charge	**(3 474)**	(1 986)
Disposals	**3 502**	3 448
At the end of the year	**(17 081)**	(17 109)
Net book value	**16 358**	3 728
7.2 Investment property		
Net fair value at the beginning of the year	**111 552**	89 615
Additions	**2 614**	15 247
Fair value adjustment	**26 538**	6 690
Disposal	**(131 048)**	–
Fair value at end of year	**9 656**	111 552

The majority of the investment properties held at 30 June 2005 were sold in the current year. Investment properties held on the balance sheet at 30 June 2006 consist of the following:

Name	Description	Last valuation	30 June 2006 R'000	30 June 2005 R'000
Peter Place	100% owner of lettable office park in Sandton	Cost approximates fair value	**9 656**	5 342

The investment property was valued by an independent valuator using a discounted cash flow model based on current market rentals and costs, assuming a vacancy percentage and using market related discount and inflation rates.

(R'000)	Group 2006	Group 2005
8. ASSOCIATES		
Unlisted associates		
Shares at cost	–	–
Group's share of retained profits/(losses) – net of dividends received	1 669	(2 188)
	1 669	(2 188)
Unsecured loans	–	8 597
	1 669	6 409
Directors' valuation of shares of unlisted associates	1 669	6 409

9. INVESTMENTS IN SERVICE CONCESSIONS

	2006	2005
At fair value	59 701	88 894

The investments consist of the group's interest in foreign toll road concessions.

During the year, the group exited India and the investment in the Noida Delhi concession was sold. Details of the investments at 30 June 2006 are as follows:

Name	Country	Kms	% interest	Concession period	Current status	2006	2005
M5 – investment and loan	Hungary	96	3.5	25 years	Construction complete; operational	40 535	59 403
A1 – investment and loan	Poland	98	15	30 years	Construction to commence	19 166	29 491
						59 701	88 894

The Hungarian and Polish concessions are valued at fair value using discounted cash flow models based on traffic estimates, current and forecasted operating costs and using market-related exchange rates, discount rates and inflation rates.

(R'000)	Group 2006	Group 2005
10. INVENTORIES		
Manufacturing materials	21 772	11 233
Manufacturing work in progress	23 908	13 319
Manufacturing finished goods	30 695	20 847
Consumable stores	50 985	56 553
Property developments in progress	168 908	79 297
	296 268	181 249
Inventory obsolescence (deducted from carrying value of inventories above)		
Balance at end of year	1 160	1 912

(R'000)	Group 2006	Group 2005
11. CONTRACTS IN PROGRESS		
Costs incurred plus profits recognised, less estimated losses relating to contracts in progress at year-end	**10 854 874**	11 235 642
Progress billings	**(10 010 595)**	(10 831 351)
	844 279	404 291
12. TRADE AND OTHER RECEIVABLES		
Accounts receivable include:		
– Retention debtors	**71 722**	36 866
– Amounts owing by joint venture partners	**13 781**	7 077
– Prepayments	**48 787**	16 406
– Contract debtors	**1 582 019**	684 477
– Trade debtors	**143 891**	162 514
– Other receivables	**59 353**	106 584
	1 919 555	1 013 924

The carrying value of accounts receivable approximates their fair value due to the short-term nature of these instruments. Refer to note 18 for details on credit, currency and interest rate risk.

(R'000)	Group 2006	Group 2005
13. BORROWINGS		
13.1 Interest-bearing borrowings		
Secured loans bearing interest at rates ranging from 8.25% to 15.75% per annum	**235 056**	127 056
Unsecured loans bearing interest at rates ranging from 10% to 11% per annum	**1 725**	44 440
	236 781	171 496
Less: Current portion disclosed on face of balance sheet	**(110 476)**	(62 122)
	126 305	109 374
Secured loans are secured over:		
Mobile plant, vehicles and computer equipment with a net book value of	**188 963**	108 506
Other assets with a net book value of	**–**	–
Repayable during the years ending 30 June		
2006	**–**	62 122
2007	**110 475**	61 000
2008	**55 789**	32 560
2009	**38 022**	8 114
2010	**30 405**	3 092
2011	**2 090**	4 608
	236 781	171 496

(R'000)	Group 2006	Group 2005
13. BORROWINGS (continued)		
13.2 Bank overdrafts		
Bank overdrafts – local	**143 849**	148 616
13.3 Bank overdraft facilities		
Borrowing facilities – local	**265 000**	295 000
Current utilisation	**(143 849)**	(148 616)
Borrowing facilities not utilised	**121 151**	146 384

The carrying amounts of all borrowings approximate their fair values.

13.4 Nedbank Limited loan agreement

During 2001, the group entered into a contract to construct residential houses for the use of employees of Anglo American Platinum Corporation Limited ("Anglo Plats"). This construction was financed by Nedbank Limited ("Nedbank") in terms of a R469 million project finance facility. As the houses were completed they were leased by the group to a subsidiary of Anglo Plats and the capital portion of the project finance facility was transferred to a long-term interest-bearing liability with Nedbank Limited.

The houses may be purchased by Anglo Plats employees during the lease at an amount equal to at least the original capital amount. At the end of the lease term all houses may be put to Anglo Plats at an amount equal to the outstanding capital. All lease payments are guaranteed by both Anglo Plats and its subsidiary, Rustenburg Platinum Mines Limited.

An agreement was reached between the group and Nedbank whereby Nedbank acts as agent to collect all monies due to the group, including the sale of the houses.

The investment in the finance lease by the group of R469 million at 30 June 2006 and the amount due to Nedbank of R469 million at 30 June 2006 have thus been derecognised for disclosure purposes. This is in accordance with IAS 32 – "Financial Instruments – Presentation and Disclosure" as there is a legally enforceable right to derecognise the amounts and it is the group's intention to settle any amounts due to Nedbank on a net basis, or to sell the houses and settle the liability simultaneously.

(R'000)	Group 2006	Group 2005
14. DEFERRED TAXATION		
Balance at beginning of year	**70 715**	62 919
Credited to income	**137 755**	7 796
Balance at end of year	**208 470**	70 715
The closing balance deferred taxation asset is attributable to the following items:		
Capital allowances	**(27 873)**	29
Provisions	**17 504**	25 615
Contract allowances	**92 848**	(12 603)
Estimated tax losses (net of valuation allowances)	**113 405**	57 674
Other	**12 586**	–
	208 470	70 715

(R'000)	Group 2006	Group 2005
15. TRADE AND OTHER PAYABLES		
Accounts payable include:		
– Advance payments received	**592 562**	195 349
– Trade and other creditors	**252 927**	222 752
– Accrued expenses	**982 371**	520 284
– Sub-contractor creditors	**174 574**	74 171
– Retention creditors	**110 929**	71 924
– Excess billing over work done	**1 216 690**	513 011
	3 330 053	1 597 491

The carrying value of accounts payable approximates their fair value due to the short-term nature of these instruments. Refer to note 18 for details on currency and interest rate risk.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Contract provisions	Rental guarantee	Payroll provisions	Sundry provisions	**Total**
Balance at 30 June 2004	10 201	1 660	114 380	5 212	**131 453**
Charged to income statement	1 211	–	151 763	12 809	**165 783**
Provision (utilised)/reversed	(701)	(1 660)	(154 860)	(10 541)	**(167 762)**
Balance at 30 June 2005	10 711	–	111 283	7 480	**129 474**
Charged to income statement	11 912	–	168 041	39 085	**219 038**
Provision (utilised)/reversed	(13 117)	–	(138 566)	(46 495)	**(198 178)**
Balance at 30 June 2006	9 506	–	140 758	70	**150 334**

Contract provisions:
Contract provisions include amounts accrued for subcontractor estimated billings for which no certification has taken place.

Payroll provisions:
Payroll provisions consists of amounts accrued for leave pay and performance bonuses.

The carrying value of provisions approximates their fair value due to the short-term nature of these instruments. The provisions have been determined based on assessments and estimates by management. Actual results could differ from estimates and there is no certainty as to the timing of the cash flows relating to these provisions.

(R'000)	Group 2006	Group 2005
17. COMMITMENTS AND CONTINGENCIES		
Fixed asset commitments		
Contracts placed	**1 445**	20 992
Capital expenditure approved by directors but not placed at 30 June	**149 711**	110 000
	151 156	130 992
The above expenditure will be funded from existing resources and facilities.		
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	**30 603**	20 034
Later than 1 year and not later than 5 years	**103 848**	87 857
Later than 5 years	**43 269**	69 858
	177 720	177 749
Guarantees		
Total financial institution backed guarantees provided to third parties on behalf of subsidiary companies amounted to R1 977 million (2005: R1 337 million). The directors do not believe any exposure to loss is likely. Total facilities in this regard amount to R3 387 million (2005: R2 365 million).		
The issued guarantees have the following expiry dates:		
Not later than 1 year	**853**	1 059
Later than 1 year and not later than 5 years	**1 094**	249
Later than 5 years	**30**	29
	1 977	1 337

Other

The group is, from time to time, involved in various claims and legal proceedings arising in the ordinary course of business. The directors do not believe that adverse decisions in any pending proceedings or claims against the group will have a material adverse effect on the financial condition or future operations of the group.

18. FINANCIAL INSTRUMENTS

Introduction

The group has a risk management and central treasury function that manages the financial risks relating to the group's operations. The group's liquidity, credit, foreign currency and interest rate risks are continuously monitored. The group has developed a comprehensive risk management process to monitor and control these risks.

Risk profile

In the course of the group's business operations it is exposed to financial risks relating to liquidity, credit, foreign currency and interest rate risk. Risk management relating to each of these risks is detailed below.

Liquidity risk

The group manages liquidity risk by managing its working capital, capital expenditure and cash flows. The group finances its operations through a mixture of retained earnings and short and long-term bank funding. Adequate banking facilities and borrowing capacities are maintained.

18. FINANCIAL INSTRUMENTS (continued)

Credit risk

Financial instruments which potentially subject the group to concentrations of credit risk are primarily cash and cash equivalents and trade receivables. As regards cash and cash equivalents the group deals primarily with major financial institutions in South Africa and over-border.

The group's customers are concentrated primarily in South Africa but also exist in the rest of Africa, Dubai and Eastern Europe. The majority of the customers are concentrated in the industrial, resource, financial institution and public sectors. The group establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

Where appropriate, the group obtains appropriate collateral to mitigate risk. No single customer represents more than 10% of the group's total turnover.

Foreign currency risk

The group, through its foreign entities, conducts its business in various foreign currencies. As a result, it is subject to the transaction exposure that arises from foreign exchange rate movements between the dates that foreign currency transactions are recorded (foreign sales and purchases) and the dates they are consummated (cash receipts and cash disbursements in foreign currencies). The group may, from time to time, hedge its foreign currency exposure for either purchase or sale transactions through the use of foreign currency forward exchange contracts. Foreign currency denominated construction contracts entered into are primarily US Dollar-based in terms of revenue and cost and the group's results are exposed to the financial effects of the fluctuating Rand against the US Dollar. No foreign currency forward exchange contracts were entered into during the year.

Interest rate risk

The group is exposed to interest rate risk through its cash and cash equivalents and interest-bearing, short and long-term liabilities. Short-term interest rate exposure is monitored and managed by corporate treasury and may be hedged from time to time through the use of financial instruments. No interest rate related financial instruments were entered into during the year.

	Group	
(R'000)	**2006**	2005
19. EMPLOYEE BENEFITS		
19.1 Staff costs		
Wages and salaries	**1 143 399**	870 234
Pension costs – defined contribution plans (including industry plans)	**49 197**	45 938
Pension costs – defined benefit plan (income)/expense	**(10 780)**	8 599
Service cost	**9 590**	8 367
Interest cost	**63 393**	69 396
Expected return on plan assets	**(83 763)**	(69 164)
	1 181 816	924 771
Average number of persons employed by the group during the year:	**Number**	Number
Full-time	**5 980**	6 426
Part-time	**4 254**	2 738
	10 234	9 164
South Africa	**6 784**	5 818
Over-border	**3 450**	3 346
	10 234	9 164

19. EMPLOYEE BENEFITS (continued)

19.2 Pension scheme

The latest actuarial valuation of the group's defined benefit plan was carried out in June 2006 and was considered by the actuaries to be in a sound financial condition.

A summary of the valuation is presented below:	R'000	R'000
Present value of funded obligations	**(806 758)**	(794 723)
Fair value of plan assets	**1 113 913**	968 357
Surplus	**307 155**	173 634

	%	%
The principal assumptions used for accounting purposes were as follows:		
Discount rate	**9.50**	8.25
Expected return on assets	**9.50**	8.25
Future salary increases	**6.75**	5.50
Future pension increases	**4.60**	3.60

The legally required surplus apportionment exercise was carried out as at 29 February 2004. The results of the actuarial valuation at that date disclosed a surplus of approximately R47 million. In addition, the valuation disclosed that the group was required to pay an amount of approximately R6 million in terms of "improper use", which amount has been fully accounted for. The rules of the fund have been amended to provide that additional surplus arising after the surplus valuation date are for the account of the group as are any future deficits.

19.3 Post-employment obligations	**35 364**	39 260

The group's accrual for post-employment medical obligations of R18,6 million (2005: R27,6 million), included in the total, is based on assumptions used by the independent actuaries which includes appropriate mortality tables, long-term estimates of increases in medical costs and appropriate discount rates. The main actuarial assumption is a long-term increase in health costs of 6% per annum (2005: 5%).

19.4 Employee Share Option Schemes

19.4.1 The Black Management Scheme (3.9% of enlarged share capital)

The purpose of the Scheme is twofold, namely to give effect to one of Group Five's broad-based black economic empowerment objectives, and to encourage black employees within the group, who are employed at management level (being Peromnes Grade 8 and higher or the equivalent from time to time), to remain in the employment of the group and to promote the continued growth of the group by giving such employees, including future employees, an opportunity to acquire shares.

Group Five provided the Black Management Trust with a loan to enable the Black Management Trust to subscribe for 3 791 109 Group Five shares at a price of R16,03 per share. Annual interest on the loan will equate to the lesser of dividends received from Group Five shares and the South African prime overdraft rate. Allocations, at the discretion of the board remuneration committee, were made at the inception of the scheme to earmarked black managers, who do not participate in the New Management Incentive Scheme. The balance will be allocated during the term of the scheme to new appointees and managers that are promoted. The Black Management Trust will administer the Black Management Scheme.

The Black Management Trust will utilise all the dividends received on the shares to settle any expenses (ie audit fees and bank charges) and to service any outstanding funding obligations owed to Group Five. To the extent that surplus cash exists in the Black Management Trust, the trustees will be entitled to distribute the surplus cash to the beneficiaries.

19. EMPLOYEE BENEFITS (continued)

19.4 Employee Share Option Schemes (continued)

19.4.1 The Black Management Scheme (3.9% of enlarged share capital) (continued)

The vesting of the shares will take place on the following basis:

- on the 2nd anniversary of the date on which shares were allocated to the beneficiary, 50% of the shares will vest:
- on the 3rd anniversary of such date, so many additional shares as represent 25% of the share allocated to the beneficiary will vest; and
- on the 4th anniversary of such date, the balance of the shares will vest.

A person will cease to be a beneficiary upon:

- ceasing to be an employee of the company within the group, either at all or at least at a management level, other than as a result of retrenchment, unlawful dismissal, constructive dismissal by the employer, disablement, death or retirement in accordance with normal retirement policies of the group; or
- share ownership vesting occurring in respect of such beneficiary's allocated shares; or
- share ownership vesting no longer being available in terms of the scheme in respect of any of such beneficiary's allocated shares.

The initial beneficiaries have appointed two employee management trustees. In addition, an independent trustee has been appointed. The trustees will from time to time vote the allocated shares of a beneficiary in accordance with the directions of that beneficiary. Unallocated shares will be voted by the trustees as they consider to be in the best interests of future beneficiaries.

19.4.2 The Broad-based Scheme (0.6% of enlarged capital)

The beneficiaries of the Broad-based Scheme are all of the permanent Group Five employees employed in its wholly-owned subsidiaries, of all races who fell under a predetermined level (below Peromnes Grade 8) and had a minimum of one year's service at 1 October 2005. More than 90% of the participants of the Broad-based Scheme are black. Staff joining Group Five after the allocation date will not participate in the Broad-based Scheme.

Group Five issued 575 000 Group Five shares equally to 3 969 employees for no consideration on 1 October 2005.

Beneficiaries of the Broad-based Scheme are to be paid the total dividends in respect of the shares held by them and will be entitled to exercise the voting rights in respect of the Group Five shares held by them. Participants may, however, not dispose of or encumber the Group Five shares held by them prior to the 5th anniversary of the date of issue of such Group Five shares awarded to them, and such shares are accordingly pledged to Group Five as security for such non-disposal and non-encumbrance obligations, until such 5th anniversary has elapsed. There are no other conditions attaching to participation in the Broad-based Scheme.

A minimum of two senior black managers have been selected by the beneficiaries of the Broad-based Scheme to administer the voting of the beneficiaries' shares in accordance with instructions received from each beneficiary in respect of their shares.

19.4.3 New Management Incentive Scheme

Recent developments in the regulatory environment and best practice in local and global share schemes have required a review of the current Group Five Share Incentive Scheme. The board remuneration committee, with the assistance of independent advisors determined that the current scheme was no longer effective.

In line with global best practice, and emerging South Africa practice, the board remuneration committee and the board of directors recommended the adoption of an SAR Scheme based on equity-settled share appreciation rights. The New Management Incentive Scheme has the advantages of simpler mechanics, it optimises the tax position of the company and the employee and is easier to administer. The current Group Five Share Incentive Scheme, which operates as an option scheme will remain in place for options currently granted under this scheme, until such time as these options are exercised or lapse.

Under this New Management Incentive Scheme employees of the group are awarded rights to receive shares in the company based on the value of these awards. Employees, as selected by the board remuneration committee, receive annual grants of SARs, which are rights to receive shares equal to the value of the difference between the exercise price and the SAR grant price. The SAR grant price is calculated at the 30-day VWAP prior to the grant with no discount. After vesting, the SAR will become exercisable. Upon exercise by a beneficiary, the company will settle the value of the difference between the exercise price and the SAR grant price, by the delivery of Group Five shares. Group Five may withhold any amounts or make such arrangements as are necessary to meet any liability to taxation or any other liabilities in respect of the SAR Grants. The arrangements may include the sale of shares on behalf of the beneficiaries and the use of the proceeds of the sale to meet such liability, or the reduction of the number of shares to which the beneficiaries would otherwise be entitled.

The intention of the New Management Incentive Scheme is to purchase Group Five shares in the market to settle the Scheme's benefits, so the New Management Incentive Scheme will not be as dilutive as normal share option schemes. The company will retain the right to issue new shares at its election, in order to mitigate against the risk of sudden fluctuations in the share price, which could be disruptive to the orderly trade of Group Five shares in the market. The company will be limited to issuing no more than 15% of the company's shares in settlement of benefits of all company share schemes over any ten-year period.

The New Management Incentive Scheme was introduced to replace the current Group Five Share Incentive Scheme over time. The sizing of the aggregate incentive schemes and their salient features, remains unaltered as set out in the table below:

	Previous Scheme	New Scheme
Maximum number of shares available to the Scheme	11 036 000*	11 036 000*
As a percentage of current shares issued	15%	15%
Maximum number of unexercised shares available to individual	1 500 000	1 500 000
Discount to Market Value on date of option/SAR	15%	Nil**
Vesting period	2 years – 50% 3 years – 75% 4 years – 100%	2 years – 50% 3 years – 75% 4 years – 100%
Lapsing period	10 years	7 years

* At no time will the aggregate number of shares available to both schemes exceed 11 036 000

** Calculated at a 30-day VWAP prior to date of grant

19. EMPLOYEE BENEFITS (continued)

19.4 Employee Share Option Schemes (continued)

Share option activity was as follows:

	New Management Incentive Scheme		Previous Share Option Scheme		Black Management Scheme		Broad-based Scheme	
	Number	Price R	Number	Price R	Number	Price R	Number	Price R
Shares granted and accepted at 30 June 2004	–	–	6 486 100	2,65	–	–	–	–
New shares granted and accepted	–	–	1 858 250	12,42	–	–	–	–
Shares paid for/lapsed	–	–	(3 335 250)	2,22	–	–	–	–
Balance as at 30 June 2005	–	–	5 009 100	5,94	–	–	–	–
New shares granted and accepted	1 170 000	23,67			1 790 000	16,03	575	–
Shared paid for/lapsed	–	–	(2 042 700)	2,06	–	–	–	–
Balance at 30 June 2006	1 170 000	23,67	2 966 400	8,61	1 790 000	16,03	575	–
Number of shares vested at 30 June 2006	–	–	1 115 775	3,72	–	–	–	–

	Total R'000	R'000	R'000	R'000	R'000
Cost of share options – year ended 30 June 2005	1 492	–	1 492	–	–
Cost of share options – year ended 30 June 2006	11 131	894	2 671	1 146	6 420

(R'000)	Group 2006	2005
20. PROFIT BEFORE WORKING CAPITAL CHANGES		
Profit before taxation	**231 973**	133 796
Adjustments for:		
Depreciation and amortisation	**70 874**	56 235
Fair value adjustments	**(26 538)**	(42 392)
Profit on disposal of fixed assets	**–**	(31 393)
Share of associates' income – net of tax	**–**	(1 640)
Finance costs	**30 329**	25 922
Other	**461**	–
	307 099	140 528
21. WORKING CAPITAL CHANGES		
Trade and other payables	**1 691 838**	477 982
Trade and other receivables	**(905 631)**	(102 817)
Provisions	**40 860**	(1 979)
Contracts in progress	**(439 988)**	(255 425)
Inventories	**(89 019)**	4 191
Post-employment obligations	**(3 896)**	(710)
	294 164	121 242
22. TAXATION PAID		
Taxation owing at the beginning of the year	**(23 972)**	(50 130)
Charge per the income statement	**(62 754)**	(26 199)
Movement in deferred taxation	**(125 945)**	12 445
Taxation owing at the end of the year	**56 955**	23 972
Total paid during the year	**(155 716)**	(64 802)
23. CASH AND CASH EQUIVALENTS AT END OF YEAR		
Bank balances and cash	**712 999**	326 731
Bank overdrafts	**(143 849)**	(148 616)
Cash and cash equivalents at end of year	**569 150**	178 115

24. NON-CASH TRANSACTIONS (R'000) – CASH FLOW STATEMENT

Excluded from the cash flow statement are additions to fixed assets amounting to R127 407 (2005: R55 142) which were funded by finance leases.

(R'000)	Group 2006	Group 2005
25. RELATED PARTY TRANSACTIONS		
25.1 Directors' and senior management emoluments		
Executive directors (refer details on page 127)		
For management services excluding incentives	**3 694**	7 779
Performance and equity incentives	**5 448**	11 029
	9 142	18 808
Paid by subsidiaries	**(9 142)**	(18 808)
	–	–
Non-executive directors (refer details on page 127)		
Directors' fees, other fees and expenses	**1 382**	760
Paid by subsidiaries	**(1 382)**	(760)
	–	–
Other senior management		
For management services and incentives	**15 636**	12 232
Paid by subsidiaries	**(15 636)**	(12 232)
	–	–

25.2 Transactions with shareholder (enterprise development)

The construction industry together with the South African government realised, in the drafting of the Construction Charter, the distinct lack of capacity in the sector across levels and disciplines. The enterprise development section of the charter was thus designed to correct this weakness arising from decades of under investment in capital projects as well as providing an opportunity to correct the imbalances of the past, particularly as regards the participation of women.

Enterprise development must be clearly distinguished from joint ventures, which involve a sharing of risk and resource to achieve a common goal of making profit. Enterprise development, as defined in the charter, is the development of black-owned enterprises (50% plus one share) through investment, mentoring, skills development and systems transfer.

In addition to various joint ventures, Group Five has entered into a formal signed agreement with the construction arm of iLima Group, namely iLima Projects (Pty) Ltd.

In terms of this agreement, the following arrangements have been put in place:

- **Management and labour assistance and skills transfer:**
  - one executive director of Group Five sits on the board of iLima Projects in a non-executive capacity;
  - two financial resources (including a senior financial manager) have been seconded by Group Five to iLima Projects for a period of eighteen months;
  - the tendering and estimating management of Group Five Building have been made available to iLima Projects in a review and consultation capacity; and
  - Group Five KwaZulu-Natal management have provided review and consultation support to certain of the Eastern Cape contracts of iLima Projects.

25. RELATED PARTY TRANSACTIONS (continued)

25.2 Transactions with shareholder (enterprise development) (continued)

- **Establishment of administrative systems:**
  - Group Five have conducted a full review of the financial, payroll, information technology and site administration processes, policies and procedures and assisted in improving, formalising and implementing new processes, policies and procedures at iLima Projects; and
  - the Group Five financial and job costing system, namely JD Edwards has been fully implemented at iLima Projects; during F2007 the implementation of Group Five's PeopleSoft HCMS will be undertaken.
- **Financial assistance:**
  - Group Five's total direct costs relating to the above for F2006 amount to R511 937 for which no charge has been made to iLima Projects;
  - Group Five has provided a medium-term loan to iLima Projects of R14,4 million repayable on 30 June 2007 and bearing interest at bank prime overdraft rate to fund working capital requirements;
  - Group Five has provided a letter of guarantee to Investec Bank Limited in support of a short-term loan of R10 million that Investec has provided to iLima Projects for working capital requirements;
  - Financial institution guarantees of R250 million have been allocated by Group Five from their facilities to iLima Projects for current contracts; and
  - Group Five has agreed to assist iLima Projects with plant and equipment required for its contracts, which will be charged at arm's length rates.

Since 1 October 2005, iLima Projects' secured order book has grown from R110 million to R440 million and its permanent staff complement from 77 to 145.

(R'000)	Group 2006	Group 2005
26. DISCONTINUED OPERATIONS		
During the period under review, the group terminated its operations and maintenance business in India and disposed of its concession investment.		
In addition, it disposed of its 50% joint venture share in WSSA for R2 million and its 25% associate share in Group Five Saudi Pipe for $1 million.		
Subsequent to year-end the group concluded negotiations for the sale of its 100% interest in the Vaal Sanitaryware business and its 40% joint venture share in DPI Plastics for R107 million subject to certain conditions precedent.		
The following information relates to the operations of the discontinued businesses:		
Revenue	**405 525**	430 553
Cost of sales	**(400 034)**	(400 522)
Operating profit	**5 491**	30 031
Finance costs	**(7 134)**	(5 475)
(Loss)/profit before taxation	**(1 643)**	24 556
Taxation	**(4 639)**	(2 336)
(Loss)/profit after taxation	**(6 282)**	22 220
Loss on disposal of operations	**(15 254)**	–
(Loss)/profit for the year from discontinued operations	**(21 536)**	22 220
The group has reclassified the balance sheet results from the historical presentation to assets relating to discontinued operations in the consolidated balance sheet for all periods presented.		
Non-current assets	**211 390**	114 383
Current assets	**127 277**	135 059
Non-current assets classified as held for sale	**338 667**	249 442
Interest-bearing borrowings	**13 589**	23 952
Current liabilities	**134 696**	94 253
Liabilities directly associated with non-current assets classified as held for sale	**148 285**	118 205
Net assets	**190 382**	131 237
Cash flows relating to discontinued operations are presented below:		
Net cash flows from discontinued operations		
Net cash (outflow)/inflow from operating activities	**(21 536)**	20 357
Net cash utilised in investing activities	**(79 145)**	–
Net funding (of)/from discontinued operations	**(100 681)**	20 357

ANNEXURE 1 – COMPANY FINANCIAL STATEMENTS

at 30 June 2006

(R'000)	Group 2006	2005
INCOME STATEMENT (refer notes that follow)		
Dividends received from subsidiary	–	–
Taxation	–	–
Net profit	–	–
BALANCE SHEET (refer notes that follow)		
Assets		
Investment in subsidiaries	306 395	336 690
Other investments	500	500
	306 895	337 190
Equity and liabilities		
Stated capital	296 142	287 803
Distributable reserves	10 753	49 387
	306 895	337 190

STATEMENT OF CHANGES IN EQUITY

	Number of ordinary shares issued	Number of shares held as treasury shares	Number of shares held by share trust	Net shares issued to public	Stated capital R'000	Distributable reserves R'000	Total shareholders' equity R'000
Balance at 30 June 2004 – as previously reported	**73 573 023**	**(4 453 432)**	**(559 123)**	**68 560 468**	**278 931**	**81 939**	**360 870**
Effect of the adoption of IFRS on prior periods	–	–	–	–	496	–	496
Balance at 30 June 2004 – restated	**73 573 023**	**(4 453 432)**	**(559 123)**	**68 560 468**	**279 427**	**81 939**	**361 366**
Transfer of shares from treasury stock	–	4 453 432	(4 453 432)	–	–	–	–
Issue of shares in terms of share scheme	–	–	3 335 250	3 335 250	6 884	–	6 884
Share options issued	–	–	–	–	1 492	–	1 492
Net profit	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	(32 552)	(32 552)
Balance at 30 June 2005 – restated	**73 573 023**	**–**	**(1 677 305)**	**71 895 718**	**287 803**	**49 387**	**337 190**
Issue of shares to share trust in terms of share scheme	828 100	–	(828 100)	–	–	–	–
Issue of shares from share trust	–	–	2 022 500	2 022 500	4 317	–	4 317
Issue of shares in terms of BEE ownership transaction	25 323 433	–	(25 323 433)	–	–	–	–
Costs related to BEE ownership transaction	–	–	–	–	(7 109)	–	(7 109)
Share options issued	–	–	–	–	11 131	–	11 131
Net profit for the year	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	(38 634)	(38 634)
Balance at 30 June 2006	**99 724 556**	**–**	**(25 806 338)**	**73 918 218**	**296 142**	**10 753**	**306 895**

at 30 June 2006

(R'000)	Group 2006	Group 2005
NOTES TO THE FINANCIAL STATEMENTS		
1. Principal accounting policies		
These financial statements should be read together with the group financial statements set out on pages 190 to 238. The accounting policies adopted are set out on page 205.		
2. Investment in subsidiaries		
Shares at cost	**411 232**	411 232
Amounts owing to subsidiaries	**(104 837)**	(74 542)
	306 395	336 690

3. Taxation

No taxation has been provided as no income was earned.

4. Cash flow statement

No cash flow statement has been prepared as there was no flow of funds during the year. The dividends and directors' emoluments paid were funded by subsidiaries and the dividends received and the proceeds on issue of shares were received by subsidiaries.

ANNEXURE 2 – INTEREST IN SUBSIDIARIES

at 30 June 2006

	Issued ordinary share capital		Percentage held		Shares at cost		Amounts owing (to)/by subsidiaries	
Direct	**2006 Shares**	2005 Shares	**2006 %**	2005 %	**2006 R'000**	2005 R'000	**2006 R'000**	2005 R'000
Group Five Construction (Proprietary) Limited	**1 000 000**	1 000 000	**100**	100	**14 177**	14 177	**(184 818)**	(154 523)
Group Five International Limited (Mauritius)	**1 000**	1 000	**100**	100	**27 985**	27 985	**–**	–
Everite Limited	**51 191 400**	51 191 400	**100**	100	**368 570**	368 570	**–**	–
Group Five Construction (UK) Limited	**100**	100	**100**	100	**500**	500	**79 981**	79 981
					411 232	411 232	**(104 837)**	(74 542)

PRINCIPAL SUBSIDIARIES Direct and Indirect

Everite Manufacturing (Proprietary) Limited*
Everite Pipes (Proprietary) Limited*
Group Five (Botswana) (Proprietary) Limited^
Group Five (Zambia) (Proprietary) Limited^
Group Five Building (Proprietary) Limited^
Group Five Civil Engineering (Proprietary) Limited^
Group Five Construction (Proprietary) Limited^
Group Five Construction (UK) Limited
(Ghana, Malawi, Mauritius and Dubai)^
Group Five Contractors (Namibia) (Proprietary) Limited^
Group Five Infrastructure Development Services (Proprietary) LimitedΔ
Group Five International (Proprietary) Limited (Tanzania branch)^
Group Five Housing (Proprietary) Limited^
Group Five Property Development Services (Proprietary) Limited†
Group Five International Limited (Mauritius, Angola and Algeria)^
Group Five KwaZulu-Natal (Proprietary) Limited^
Group Five Plant & Equipment (Proprietary) Limited•
Group Five Engineering Projects (Proprietary) Limited^
Intertoll Holdings (Proprietary) Limited#

Nature of business

*	Manufacture of building products
^	Construction activities
†	Property developments
•	Plant ownership and hire
#	Operations and maintenance
Δ	Infrastructural developments

Unless specified, all companies are incorporated in South Africa and are all wholly-owned.

The group maintains a register of all subsidiaries available for inspection at the registered office of Group Five Limited.

The holding company's interest in the aggregate net profits earned by subsidiaries and joint ventures amounted to R148,1 million (2005: R129,8 million) respectively.

No part of the business of any subsidiary has been managed during the financial period by any third person.

ANNEXURE 3 – INTEREST IN JOINT VENTURES

at 30 June 2006

The total percentage holding by the group in the equity of each significant jointly controlled entity is as follows:

Joint venture	Country	Nature of business	Proportion of issued shares held (%)
St Martins Sewage Joint Venture	Mauritius	Sewage works	50
Michelangelo Towers Joint Venture	South Africa	Construction	50
Group Five – GCC Bank of Mauritius Joint Venture	Mauritius	Construction	50
Berg River Project Joint Venture	South Africa	Construction	24
G5 – Masinya Consortium Venture	South Africa	Construction	25
Group Five Pipe (Proprietary) Limited	South Africa	Pipe manufacturing	50
Motlhotlo Joint Venture	South Africa	Construction	50

The group maintains a register of all its joint ventures for inspection at the registered office of Group Five Limited.

(R'000)	Group 2006	2005
AGGREGATE FINANCIAL INFORMATION:		
Balance sheet		
Group's proportionate share of assets and liabilities:		
Assets		
Non-current assets	**767**	5 266
Current assets	**174 433**	49 189
	175 200	54 455
Equity and liabilities		
Shareholders' equity	**25 129**	13 322
Non-current liabilities	**94**	–
Current liabilities	**149 977**	41 133
	175 200	54 455
Income statement		
Group's proportionate share of income and expenditure:		
Revenue	**270 682**	203 143
Profit before taxation	**7 494**	2 457
Taxation	**–**	(516)
Profit after taxation	**7 494**	1 941
Dividends received	**–**	–
Summarised cash flow statement		
Cash flow from operating activities	**(20 752)**	517
Cash flow from investing activities	**4 499**	(3 341)
Cash flow from financing activities	**94**	5 219
Net (decrease)/increase in cash and cash equivalents	**(16 159)**	2 395

ANNEXURE 4 – INVESTMENT IN ASSOCIATES

at 30 June 2006

The total percentage holding by the group in the equity of significant associates is as follows:

Associate	Country	Nature of business	Number of shares issued	Proportion of issued shares held (%)
Unlisted				
Metsi Water and Sanitation Company (Proprietary) Limited	South Africa	Water supply	2 250 ordinary shares of R1 each	15
Amanz' Abantu Services (Proprietary) Limited	South Africa	Water supply	100 ordinary shares of R1 each	25.5

	Group	
(R'000)	**2006**	2005
AGGREGATE FINANCIAL INFORMATION: UNLISTED		
Balance sheet		
Group's share of assets and liabilities:		
Assets		
Non-current assets	**23**	2 378
Current assets	**3 335**	27 602
	3 358	29 980
Equity and liabilities		
Shareholders' interest	**1 592**	18 871
Non-current liabilities	**–**	438
Current liabilities	**1 766**	10 671
	3 358	29 980
Income statement		
Group's share of income and expenditure:		
Revenue	**8 336**	37 778
Profit before taxation	**–**	2 904
Taxation	**–**	(958)
Profit after taxation	**–**	1 946
Dividends received	**–**	2 870
Summarised cash flow statement		
Cash flow from operating activities	**619**	(4 009)
Cash flow from investing activities	**27**	(26)
Cash flow from financing activities	**–**	(1 062)
Net increase/(decrease) in cash and cash equivalents	**646**	(5 097)

ANNEXURE 5 – ANALYSIS OF SHAREHOLDERS

at 30 June 2006

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	1 921	49.36	962 544	0.97
1 001 – 10 000 shares	1 533	39.39	5 183 725	5.20
10 001 – 50 000 shares	266	6.83	5 954 206	5.97
50 001 – 500 000 shares	136	3.49	20 316 739	20.37
500 001 – 1 000 000 shares	21	0.54	15 059 910	15.10
1 000 001 and over shares	15	0.39	52 247 432	52.39
	3 892	**100.00**	**99 724 556**	**100.00**
Distribution of shareholders				
Banks	36	0.92	10 405 614	10.43
Close Corporations	62	1.59	259 329	0.26
Empowerment	1	0.03	25 323 433	25.39
Endowment Funds	35	0.90	702 595	0.70
Individuals	2 961	76.08	8 430 534	8.45
Insurance Companies	25	0.64	6 637 386	6.66
Investment Companies	16	0.41	4 821 744	4.84
Medical Aid Schemes	3	0.08	712 180	0.71
Mutual Funds	140	3.60	25 064 998	25.13
Nominees and Trusts	345	8.86	1 547 107	1.55
Other Corporations	46	1.18	721 255	0.72
Pension Funds	102	2.62	11 209 023	11.24
Private Companies	110	2.83	3 334 802	3.34
Public Companies	9	0.23	71 651	0.07
Share Trust	1	0.03	482 905	0.48
	3 892	**100.00**	**99 724 556**	**100.00**

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	7	0.18	26 070 759	26.14
Directors of the company	2	0.05	69 005	0.07
Executive committee members of the company	3	0.07	195 416	0.20
Empowerment	1	0.03	25 323 433	25.39
Share scheme	1	0.03	482 905	0.48
Public shareholders	**3 885**	**99.82**	**73 653 797**	**73.86**
	3 892	**100.00**	**99 724 556**	**100.00**

Beneficial shareholders holding 5% or more	Number of shares	%
Group Five BEE Share Scheme Control Account	25 323 433	25.39
Old Mutual Group	6 402 244	6.42
Morgan Stanley	5 341 204	5.36

at 30 June 2006

	Number of shares	% of shareholding
Directors of the company		
MH Lomas	39 005	0.04
D Paizes	30 000	0.03
	69 005	**0.07**
Executive committee members of the company		
GL Geldenhuis	1 166	0.01
JA Wallace	63 750	0.06
P le Sueur	130 500	0.13
	195 416	**0.20**

Rank	Name of shareholder	Shares	%
1	Group Five BEE Share Scheme Control Account	25 323 433	25.39
2	Old Mutual Group	6 402 244	6.42
3	Morgan Stanley	5 341 204	5.36
4	Rand Merchant Bank	4 471 521	4.48
5	Stanlib Funds	3 959 160	3.97
6	Sanlam	3 568 208	3.58
7	Investment Solutions	3 038 110	3.05
8	Public Investment Corporation	2 968 378	2.98
9	Liberty Group	2 462 674	2.47
10	Ellerine Brothers	2 437 617	2.44
11	Eskom Pension and Provident Fund	2 136 474	2.14
12	Van Kampen Investments	1 644 200	1.65
13	Coronation	1 585 653	1.59
14	Transnet Pension Fund	1 400 530	1.40
15	Momentum	1 383 191	1.39
16	Futuregrowth	1 105 907	1.11
17	m Cubed	930 377	0.93
18	Nedbank Group	853 674	0.86
19	Telkom Retirement Fund	780 681	0.78
20	Prudential M&G	754 352	0.76
		72 547 588	**72.75**

NOTICE OF ANNUAL GENERAL MEETING

at 30 June 2006

GROUP FIVE LIMITED

(Registration number 1969/000032/06)
(Incorporated in the Republic of South Africa)
JSE code: GRF ISIN: ZAE000027405
("Group Five" or "the company")

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of shareholders of the company will be held at the registered office of Group Five, 371 Rivonia Boulevard, Rivonia, on Tuesday, 17 October 2006 at 09h00, for the purpose of considering, and if deemed fit, passing with or without modification, the following resolutions:

ORDINARY BUSINESS

1. To receive and consider the annual financial statements of the group for the year ended 30 June 2006, together with the directors' and independent auditors' reports.

2. To re-elect by seperate resolutions Baroness L Chalker and Messrs D Paizes and PS O'Flaherty as directors of the company, who retire by rotation in terms of the company's Articles of Association and who are eligible and offer themselves for re-election. A brief CV in respect of each director standing for re-election appears on page 22 of this annual report.

3. To ratify the remuneration paid to directors for the past financial year.

4. To re-appoint PricewaterhouseCoopers Inc. as independent auditors of the company.

SPECIAL BUSINESS

ORDINARY RESOLUTION NUMBER 1: Control of authorised but unissued shares

"**RESOLVED THAT** the authorised but unissued shares in the capital of the company be and are hereby placed under the control and authority of the directors of the company and that the directors of the company be and are hereby authorised and empowered to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as the directors of the company may from time to time and in their discretion deem fit, subject to the provisions of the Companies Act (Act 61 of 1973) as amended ("the Act"), the Articles of Association of the company and the Listings Requirements of the JSE Limited ("JSE"), when applicable. This authority is restricted to 10% of the ordinary shares in issue as at 30 June 2006 and will remain in place until the next annual general meeting of Group Five ordinary shareholders."

ORDINARY RESOLUTION NUMBER 2: General authority to issue shares for cash

"**RESOLVED THAT** the directors of the company be and they are hereby authorised by way of a general authority, to issue the authorised but unissued shares in the capital of the company for cash, as and when they in their discretion deem fit, subject to the Act, the Articles of Association of the company, the JSE Listings Requirements, when applicable, and the following limitations, namely that:

- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue; [5.52 (a)]

- any such issue will only be made to "public shareholders" as defined in the JSE Listings Requirements and not related parties, unless the JSE otherwise agrees; [5.52 (b)]

- the number of shares issued for cash shall not in the aggregate in the current financial year exceed 10% (ten per cent) of the company's issued share capital of ordinary shares. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue at the date of such application less any ordinary shares issued during the current financial year, provided that any ordinary shares to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were shares in issue at the date of application; [5.52 (c) (i) and (iii)]

- this authority is valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date that this authority is given; [5.50 (b)]
- a paid press announcement giving full details, including the impact on the net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five per cent) or more of the number of shares in issue prior to the issue; and [11.22]
- in determining the price at which an issue of shares may be made in terms of this authority post the listing of the company, the maximum discount permitted will be 10% (ten per cent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the company. [5.52 (d)]

This ordinary resolution is required, under the JSE Listings Requirements, to be passed by achieving a 75% majority of the votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote, at the general meeting."

SPECIAL RESOLUTION NUMBER 1: General authority to repurchase shares

"RESOLVED THAT, subject to compliance with the JSE Listings Requirements, the Act and the Articles of Association of the company, the directors of the company be and are hereby authorised in their discretion to procure that the company or subsidiaries of the company acquire by repurchase on the JSE ordinary shares issued by the company provided that:

- the number of ordinary shares acquired in any one financial year shall not exceed 20% of the ordinary shares in issue at the date on which this resolution is passed; [5.68]
- this must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty; [5.72 (a)]
- this authority shall lapse on the earlier of the date of the next annual general meeting of the company or 15 months after the date on which this resolution is passed; and [5.72(c)]
- the price paid per ordinary share may not be greater than 10% above the weighted average of the market value of the ordinary shares for the 5 business days immediately preceding the date on which a purchase is made. [5.72 (d)]

The reason for and effect of this special resolution is to authorise the directors, if they deem it appropriate in the interests of the company, to procure that the company or subsidiaries of the company acquire or repurchase ordinary shares issued by the company subject to the restrictions contained in the above resolution.

At the present time the directors have no specific intention with regard to the utilisation of this authority which will only be used if the circumstances are appropriate.

The directors, after considering the effect of a repurchase of up to 20% of the company's issued ordinary shares, are of the opinion that if such repurchase is implemented:

- the company and the group will be able to pay their debts in the ordinary course of business for a period of 12 months after the date of this notice; [5.69 (c) (i)] [11.26 (d) (i)]
- recognised and measured in accordance with the accounting policies used in the latest audited annual group financial statements, the assets of the company and the group will exceed the liabilities of the company and the group for a period of 12 months after the date of this notice; [5.69 (c) (ii)] [11.26 (d) (ii)]
- the ordinary capital and reserves of the company and the group will be adequate for the purposes of the business of the company and the group for a period of 12 months after the date of this notice; [5.69 (c) (iii)] [11.26(d) (iii)]
- the working capital of the company and the group will be adequate for the purposes of the business of the company and the group for a period of 12 months after the date of this notice; [5.69(c) (iv)] [11.26(d) (iv)]

- after such repurchase the company will still comply with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread requirements; [5.69 (g)]
- the company or the group will not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements; [5.72 (g)]
- when the company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement will be made; [11.27]
- the company only appoints one agent to effect any repurchase(s) on its behalf; and [5.72 (e)]
- the company undertaking that it will not enter the market to repurchase the company's securities until the company's sponsor has provided written confirmation to the JSE regarding the adequacy of the company's working capital in accordance with Schedule 25 of the JSE Listings Requirements.

Other disclosure in terms of Section 11.26 of the JSE Listings Requirements:

- directors (page 22); [7.B.1]
- major shareholders (page 246); [7.A.27]
- directors' interests in securities (page 246); and [7.B.20]
- share capital of the company (page 239). [7.B.4] [7.A.5]

MATERIAL CHANGES

There have been no material changes in the affairs or financial position of Group Five and its subsidiaries since 30 June 2006. [11.26 (b) (iii)]

LITIGATION STATEMENT

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names are given on page 22 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Group Five's financial position. [11.26 (b) (vii)]

DIRECTORS' RESPONSIBILITY STATEMENT

The directors whose names appear on page 22 of the annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this resolution and additional disclosure in terms of Section 11.26 of the JSE Listings Requirements pertaining thereto contains all information required by law and the JSE Listings Requirements. [11.26 (b) (vi)]

VOTING AND PROXIES

A member entitled to attend and vote at the annual general meeting is entitled to appoint a proxy/proxies to attend, speak, and on a poll, vote in his/her stead. A proxy need not to be a member of the company.

A form of proxy is attached for the convenience of any certificated shareholder and own-name registered dematerialised shareholder who cannot attend the annual general meeting, but who wish to be represented thereat.

CERTIFICATED SHAREHOLDERS AND DEMATERIALISED SHAREHOLDERS WITH OWN NAME REGISTRATION

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the company that their shares are in fact registered in their own name. Should this not be the case and the shares are registered in another name, or in the name of a nominee company, it is incumbent on shareholders attending the meeting to make the necessary arrangements with that party to be able to attend and vote in their capacity.

DEMATERIALISED SHAREHOLDERS

Shareholders who have dematerialised their shares and who wish to attend the annual general meeting have to request their Central Securities Depository Participant ("CSDP") or broker to provide them with a Letter of Representation. Should shareholders who have dematerialised their ordinary shares wish to vote by proxy, they must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between the dematerialised shareholders and their CSDP or broker.

PROXIES

The instrument appointing a proxy and the authority (if any) under which it is signed must reach the transfer secretaries of the company at the address given below, by no later than 12h00 on Tuesday, 27 September 2006.

On a poll, every shareholder of the company present in person or represented by proxy shall have one vote for every share held in the company by the shareholder.

By order of the board

NB Kekana
Company Secretary

8 August 2006

Registered office
Group Five Limited
371 Rivonia Boulevard
Rivonia
2128

PO Box 3951
Rivonia
2128

Transfer secretaries
Computershare Investor Services 2004 (Pty) Limited
Ground Floor, 70 Marshall Street
Johannesburg
2001

PO Box 61051
Marshalltown
2107

FORM OF PROXY

GROUP FIVE LIMITED

(Registration number 1969/000032/06)
(Incorporated in the Republic of South Africa)
JSE code: GRF ISIN: ZAE000027405
("Group Five" or "the company")

FORM OF PROXY

For use at the annual general meeting of the holders of ordinary shares in the company ("Group Five shareholders") to be held at the registered office of Group Five, 371 Rivonia Boulevard, Rivonia on Tuesday, 17 October 2006 ("the annual general meeting") at 09h00.

Group Five shareholders who have dematerialised their Group Five shares through a CSDP or broker must not complete this form of proxy and must provide their CSDP or broker with their voting instructions, except for Group Five shareholders who have elected own name registration in the sub-register through a CSDP or broker, which shareholders must complete this form of proxy and lodge it with the transfer secretaries.

Holders of dematerialised Group Five shares wishing to attend the annual general meeting must inform their CSDP or broker of such intention and request their CSDP/broker to issue them with the relevant authorisation to attend.

I/We ______________________________

Of (address) ______________________________

being the registered holder/s of ordinary shares in the capital of the company, hereby appoint (see note 1):

1. ______________________________ or, failing him/her
2. ______________________________ or, failing him/her
3. ______________________________ or, failing him/her

the chairman of the annual general meeting

as my/our proxy to act for me/us at the annual general meeting for the purposes of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment thereof and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s in accordance with the instructions/notes on the reverse side hereof.

Proposed ordinary/special resolutions	In favour	Against	Abstain
ORDINARY BUSINESS			
1. Resolution number 1 Receive and consider the annual financial statements for the year ended 30 June 2006			
2. Resolution number 2 Re-election of directors 2.1 Baroness L Chalker 2.2 D Paizes 2.3 PS O'Flaherty			
3. Resolution number 3 Ratify directors' fees for year ended 30 June 2006			
4. Resolution number 4 Re-appointment of auditors			
SPECIAL BUSINESS			
5. Ordinary resolution number 1 Control of authorised but unissued shares			
6. Ordinary resolution number 2 General authority to issue shares for cash			
7. Special resolution number 1 General authority to repurchase shares			

A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, vote, speak and act in his stead. A proxy need not be a member of the company.

Signed at ______________________________ on ______________________________ 2006

Signature ______________________________

assisted by me (where applicable) ______________________________

(State capacity and full name).

Please use block letters.

Please read the notes on the reverse side hereof.

NOTES TO PROXY

1. This form of proxy must only be used by certificated ordinary shareholders or dematerialised ordinary shareholders who hold dematerialised ordinary shares with "own name" registrations.
2. Dematerialised ordinary shareholders are reminded that the onus is on them to communicate with their CSDP or broker.
3. A Group Five shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the spaces provided, with or without deleting "the chairman of the general meeting", but any such deletion must be initialled by the Group Five shareholder concerned.
4. If two or more proxies attend the meeting, then that person attending the meeting whose name appears first on the proxy form, and whose name is not deleted, shall be regarded as the validly appointed proxy.
5. The authority of a person signing a proxy in a representative capacity must be attached to the proxy unless that authority has already been recorded by the company's transfer secretaries or waived by the chairman of the annual general meeting.
6. In order to be effective, proxy forms must reach the registered office of the company or the company's transfer secretaries at least 48 hours before the time appointed for holding the meeting (excluding Saturdays, Sundays and public holidays).
7. Any alteration or correction made to this form of proxy must be initialled by the signatory/(ies).
8. If this proxy form is returned without any indication as to how the proxy should vote, the proxy will be entitled to vote or abstain from voting as he thinks fit.
9. The delivery of the duly completed proxy form shall not preclude any member or his duly authorised representative from attending the meeting, speaking and voting instead of such duly appointed proxy.
10. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the company.
11. Where there are joint holders of any shares:
    - any one holder may sign this form of proxy; and
    - the vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of shareholders appear in the company's register of members) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).

Registered office
371 Rivonia Boulevard
Rivonia
Sandton
2128

PO Box 3951
Rivonia
2128

Transfer secretaries
Computershare Investor Services 2004 (Pty) Limited
Ground Floor, 70 Marshall Street
Johannesburg
2001

PO Box 61051
Marshalltown
2107

ADMINISTRATION

for the year ended 30 June 2006

TRANSFER SECRETARIES

Computershare Investor Services 2004 (Pty) Limited
Ground Floor, 70 Marshall Street,
Johannesburg 2001
PO Box 61051, Marshalltown 2107
Tel: (011) 370 5000 Fax: (011) 688 7727

BANKERS

ABSA Bank Limited
FNB Corporate, a division of FirstRand Bank Limited
The Standard Bank of South Africa Limited

AUDITORS

PricewaterhouseCoopers Inc.

SECRETARY

NB Kekana

REGISTERED OFFICE

Registration number 1969/000032/06
JSE code: GRF ISIN: ZAE 000027405
371 Rivonia Boulevard, Rivonia 2128
PO Box 5016, Rivonia 2128
Tel: (011) 806 0111
Fax: (011) 803 5520

CORPORATE FINANCE SPONSOR

Nedbank Corporate

SHAREHOLDERS' DIARY

for the year ended 30 June 2007

FEBRUARY

Interim announcement
Interim dividend declared

MAY

Interim dividend paid

JUNE

Financial year-end

AUGUST

Preliminary announcement
Final dividend declared
Annual report published

OCTOBER

Final dividend paid
Annual general meeting

GROUP FIVE

www.g5.co.za

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