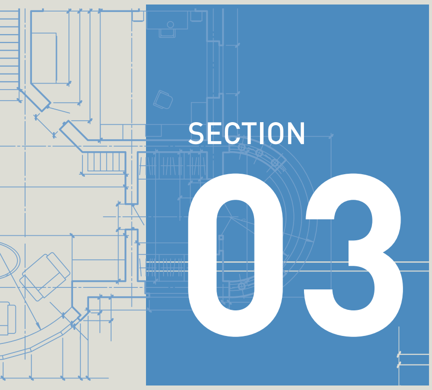


Messages from the team

In a difficult year, Group Five adhered to a disciplined and responsible approach to very weak and unpredictable markets. This section outlines reports from our team.


KBJ

REVIEW FROM THE CHAIRPERSON

Philisiwe Buthelezi

Level 2

BBBEE scorecard rating

21%

CAGR* of African investment in African countries

* Seven-year compound average growth rate.

Strategy | Risk | Corporate governance | Legal regulatory & compliance | People | Planet | Performance

In a difficult year for the construction sector, Group Five adhered to a disciplined and responsible approach to very weak and unpredictable markets. I am proud to report that the management team addressed the many challenges posed by current market conditions, while simultaneously positioning the group for future growth opportunities over an expanded geographic footprint.

The macro-economic environment

Global economic recovery has proved more elusive than generally believed 12 months ago, with inflationary pressures and the rising cost of capital likely to dampen public spending and private sector investment in the short to medium term. Although it is disappointing to note that a slower trajectory of global economic recovery is now almost inevitable, the group continues to monitor the variable market conditions through its ongoing risk assessment systems which results in proactive management decisions.

A slower economic recovery has the potential to impact significantly on the group's markets, creating cost pressures and constraining new business. The group's response has been to further diversify its sector focus and its geographical base beyond South Africa, where constraints in public spending have had a particularly negative impact on new contract availability during the period. Group Five now has operational experience across 22 countries in Africa, Eastern Europe and the Middle East. During the year, the group focused on reinforcing its strong foothold in Africa, rebuilding its business in the Middle East and seeking opportunities for expansion into other markets where we have the potential to operate and grow.

Risk management

Strong governance structures, including the effective management of risk, are essential in navigating the business successfully through the uncertain and potentially volatile economic conditions that we believe still lie ahead.

At Group Five, risk assessment is seen as a critical business function and essential in developing a resilient business culture that is risk aware. In Group Five's risk management process, key risks at a macro-economic, business and contract level are identified and their potential impact on the group is continually assessed and monitored. Risk management is not seen as a once-off exercise and is integrated into our business processes and decision making.

An example of the group's approach to managing risk is its decision to proactively engage with the Competition Commission in its investigation into the construction sector. Over the past two years we have worked in close cooperation with the Commission with the aim of expunging historically misguided behaviours from our business

The reviews from the CEO on page 81 and from the CFO on page 86 provide more detail on the group's strategy and financial results.

and the industry. We have been granted conditional leniency by the Commission pending the finalisation of the broader industry investigation. We believe this approach will be to the long term benefit of the group and is in keeping with Group Five's culture of transparency and integrity.

Governance

The group remains committed to meeting the requirements of the King Code of Governance (King III).

Further information on the actions we have taken in this area can be found on page 119.

As reported last year, Group Five manages and reports on financial and sustainability issues in an integrated business model. In this integrated report we have further refined our approach to integrated reporting, as required under King III, by identifying and reporting on the issues which are most material to the group. For the first time we have included reports from the chairpeople of key board committees to strengthen our disclosure on all issues which impact on the group. We welcome feedback on our reporting. This is essential if we are to continue improving in this area.

Our governance protocol includes a board review. An independent review of the board's performance and capacity was conducted in the year. The review process included peer feedback, structured interviews with each board member and formal individual and group feedback.

The board was found to be running effectively overall, although it was recommended that the board supplements its engineering and legal skills capability. To address these gaps, the board approved the appointment of two additional board members through its nominations committee. They joined the board with effect from August 2011.

Transformation, skills development and socio-economic development

I am delighted to record that despite the challenging conditions during the year Group Five has maintained an unwavering commitment to black economic transformation and has shown concrete progress in meeting the provisions of the Construction Charter. Our broad-based black economic empowerment (BBBEE) rating under the Construction Charter improved to a Level 2 contributor. We have been able to achieve this goal despite being in the process of unwinding the ownership transaction undertaken with one of our BBBEE ownership shareholders, the iLima Consortium. In consideration of this unwind the board has mandated management to review and propose a future BBBEE shareholding structure which will be presented to existing shareholders for approval. This process is currently under way.

The broader approach of the group to transformation extends beyond mere compliance and we are now seeing the benefits of this philosophy in the external acknowledgements the group has received.

We currently have the best rating in our sector against the guidelines of the sector scorecard. We have also been rated as the 11th most empowered company in South Africa and the winner in the Basic Industrials Sector by the Financial Mail in its Top Empowerment

REVIEW FROM THE CHAIRPERSON CONTINUED

Companies survey in 2011. Our board comprises a broad spectrum of South Africans, including two black females, one white female, three white males and one black male. The board also comprises three international board members. We are proud of this diversity.

Our socio-economic development (SED) programmes have continued to progress. As we move across the borders of South Africa, this business ethos will continue into the other African countries in which we operate.

We are cognisant of the need to develop the capacity of the technical skills required in our industry and therefore support the government's National Economic Growth Plan (NEGP). The group has a track record of strong skills development in our business and industry, as well as delivering training and development programmes through our SED initiatives. Refer to page 79 for more information. We believe through these initiatives we will make a tangible contribution to achieving the objectives of the NEGP.

Future growth opportunities

In South Africa, the need for public sector spending continues to increase in importance. We are optimistic about the potential of the power sector following the announcement by the South African Department of Energy that it will start consulting with interested parties on the next Integrated Resource Plan (IRP2) for the country's energy future. The timing of the plan's roll out will be important to ensure traction in delivery.

In the rest of Africa, we believe there is strong potential for growth, particularly in the mining, power and transport sectors. Economic fundamentals underpin strong positive sentiment around Africa's growth prospects. According to *The Economist* of January 2011, six African countries were among the top ten fastest-growing countries globally between 2001 and 2010. Capital inflows are forecast to reach US$150 billion per annum by 2015. Africa has a wealth of natural resources in a world that is resource scarce. Most impressively, Africans themselves are leading growth in investment on the continent with African investment in other African countries within a diverse range of sectors and economies increasing by a compound rate of 21% from 2003 to 2010.

Group Five is well positioned to take its place in this new era of African and emerging market growth. Although operating in Africa carries specific risks, these can be managed with proper risk assessment and governance processes. As a group, we have the track record and experience to participate in this "African success story". We have many years of experience on the continent and a clear operating strategy. We believe that our continuing focus on risk management and governance enables us to expand our business on the continent in a way which will generate sustainable value for shareholders and contribute positively to the societies in which we operate.

In the Middle East and North Africa, careful assessment of market conditions is needed given the combined impact of the global economic crisis and recent popular revolutions in the region. The group has chosen to focus on commercial and financial closure of its cancelled Dubai contracts and to limit its business development activities to a small number of territories which meet the group's risk policies.

In Central and Eastern Europe, the concessions markets where we operate through our Intertoll brand have experienced a difficult period due to the economic slowdown and a number of political developments. No significant improvement in market conditions can be anticipated before 2012 or 2013. Against this, Intertoll has been able to extend its footprint into alternative markets in the region, including undertaking some contracts in the Balkans.

Looking forward, we believe that the gradual economic recovery will lead to increasing demand in our sector in the medium term, although we expect the tough conditions to be present for much of the financial year ahead.

Appreciation

As chairperson of the board, it is my pleasure to extend my appreciation to my fellow board members and to thank them for their support during the year. I thank our shareholders, clients, suppliers and business associates for their continued partnership with and support to the group.

The achievements of the management team at Group Five have been significant in challenging circumstances and I acknowledge their hard work and leadership. A special word of acknowledgment to our CEO Mike Upton and his executive team. Credit must also go to the group's employees, who have worked as a cohesive team to ensure the business weathers the current storm.

I am also particularly appreciative of the diversity of thinking displayed by my fellow board members and the executive team. I enjoy and value the constructive discussions around issues which affect the future growth prospects of Group Five and the role it plays in the wider context of our country's economy and society in general.

P (Philisiwe) Buthelezi
Non-executive chairperson

5 August 2011

REVIEW FROM THE CHAIRPERSON OF THE AUDIT AND REMUNERATION COMMITTEES

The group strengthened its forecasting model to monitor its financial strength and capacity to assume risk.

In the current difficult economic environment, ensuring the effective, but responsible, incentivisation of key skills was a core focus.

Stuart Morris

Strategy Risk Corporate governance Legal regulatory & compliance People Planet Performance

A key consideration during the year was the introduction of King III which became effective on 1 March 2010, as well as the promulgation of the new Companies Act 2008, which came into effect from 1 May 2011.

Audit committee

The audit committee considered the requirements of both the Code and the Act in line with its responsibilities. It has amended its board charter and work plan to address these requirements.

Outside of these developments, during the year the audit committee worked closely with the board and risk committee on the key financial aspects of a number of pertinent matters within our business. Although some of these matters are discussed in other reviews in this integrated report, my review aims to address these from a financial and internal control perspective.

Impairment of Construction Materials asset base

The construction industry suffered a substantial slowdown, resulting in excess available capacity, including in the aggregates, sand and readymix concrete markets. This placed extreme downward pressure on volumes and prices within the group's Construction Materials cluster.

Practice requires that the carrying value of non-current assets, including property, plant and equipment and the undeveloped mining resources related to the ore body in the group's fixed quarries are reviewed on an annual basis or when there is an indication of impairment. Estimating the recoverability of undeveloped mining resources in a market which presents little visibility and for an ore body which holds a life in excess of 40 years is therefore very complex.

During the year, the audit committee worked closely with the group's executive management during their process of determining the carrying value of the quarry-related assets and the subsequent verification of the impairment of this carrying value. The audit committee and board are satisfied that due caution was applied to the assessment of this impairment balance.

Middle East – resolution of legacy items and approval of future strategy

The group has an established presence in the Middle East with a track record of profitability and the establishment of an order book in the region of R4 billion as at June 2008. However, in late 2008 the Dubai market practically collapsed due to global market pressure,

Refer to pages 115 to 124 for a review from the company secretary and the group's compliance status in terms of the new Companies Act and King III.

REVIEW FROM THE CHAIRMAN OF THE AUDIT AND REMUNERATION COMMITTEES CONTINUED

resulting in the cancellation of two of the group's major contracts in January 2009.

The impact was not only the loss of future work to be executed, but also the required commercial process to ensure an effective and timeous resolution of amounts due to the group on these contracts. Over the last two financial years, the group has spent a considerable amount of time negotiating with its two main clients on these contracts to ensure that the group is presented with a resolution which is acceptable to the board of directors in the preservation of shareholder value.

Ensuring resolution of the debt payment terms, as well as evaluating the most responsible strategy for the group in the United Arab Emirates (UAE) required a substantial amount of time and resources from both the group's executive and the Middle East business. To effectively understand the numerous challenges in the region and its potential financial impact, the board decided that certain audit and risk committee members should travel to the region to obtain first-hand understanding of the issues.

I therefore travelled with members of the executive team and my fellow board member, John Job, to Dubai, Jordan and Qatar in June to address the following:

- The recoverability of the debts due on the cancelled and legacy contracts in Dubai
- A review of the Jordanian pipeline contract which incurred additional costs to implement corrective action
- The evaluation of business development opportunities in line with the group's strategy to retain a presence in the Middle East

Based on this visit and following continued interaction with the group's executives during the year, the audit committee was comfortable to report back to the board that management's actions to resolve these issues have been sound. It is also supportive of the group's expansion into certain Middle East markets targeted by the group.

Unwinding of a portion of the group's broad-based black economic empowerment (BBBEE) transaction

A key focus area for the group remained the effective management of the legal process relating to the unwind of a portion of its BBBEE ownership transaction held by the iLima Consortium. The challenge during the year was to ensure the group would maintain its BBBEE rating in terms of the Construction Sector scorecard post the unwind. The board allocated the overview of this process to the audit committee which established a sub-committee to consider, advise on and, where necessary, approve:

- The legal actions to be undertaken around the unwind process in the best interest of the group and its stakeholders while remaining sensitive to the imperative to have strong black shareholding
- The investigation into the options for a revised ownership BBBEE structure which will in time be presented to shareholders for final approval

The audit committee considers this responsibility to be one of its key priorities. It is pleased with the progress made so far.

Risk-bearing capacity model

As is mentioned on page 101, during the year the group focused extensively on enhancing its risk management procedures by formalising the application of its risk-bearing capacity model. One of the four pillars of the model relates to the group's financial strength to withstand changes in risk profiles in the group.

The group's finance function has an entrenched forecasting system which caters for the effects of the current order book as well as for opportunities available to the group on cash flow and liquidity. All these are evaluated along with their investment and financing requirements to present a consolidated group financial position.

During the year, under the guidance of both the risk and audit committees, this financial forecasting model was strengthened and closely linked to the group's risk-bearing capacity. This provides a powerful barometer to monitor the group's financial strength and capacity to assume risk.

The audit committee believes this rigorous interrogation of financial robustness and capacity is imperative to cater for the tough trading conditions which will continue to exist in our markets.

Compliance

The group currently operates in 22 countries and is required to adhere to a wide range of laws and regulations. A key focus area of the audit committee is the assessment of compliance with regard to finance and taxation disciplines. Compliance adherence continues to become more onerous on the group as both local and international authorities introduce additional requirements. To adhere to these in the context of a reducing headcount in line with the focus on cost control in difficult trading conditions, placed considerable pressure

on the group. During the year, the audit committee monitored and was comfortable with the group's progress in this regard.

Refer to page 181 for the group's audit committee report contained within the annual financial statements addressing the requirement of Section 94(7)(f) of the new Companies Act.

Remuneration committee

Effective incentivisation

In the current difficult economic environment, ensuring the effective, but responsible, incentivisation of key skills was a core focus for the committee. To ensure the implementation of robust strategies to address this, the committee met quarterly as opposed to three times a year in previous years. Going forward, meetings will continue to be held quarterly.

The committee developed a clear strategy to continue attracting, motivating and retaining key skills in the group against severe pressure on profitability.

In line with this, the committee:

- Reviewed the remuneration incentive programme for the senior management of the group
- Approved payouts on both short and long term incentive programmes
- Approved salaried employees' annual increases

During the year, the committee made progress on all fronts by keeping overhead costs to a minimum through the approval of an annual increase of 6% for the group, which is reflective of weak markets and aligned to the lower end of industry expectations. It also approved reduced incentive payouts and reduced share appreciation rights scheme (SARs) allocations for senior management and a smaller black management share allocation. Employee feedback was generally positive, with employees understanding the constraints of current market conditions.

The committee is in the process of reviewing alternative long term incentive programmes which will allow for more flexibility.

Refer to page 71 for more information.

Share appreciation rights scheme

Another challenge for the committee was the inability of the share appreciation rights scheme to achieve its intended objective of motivating participants towards achieving long term shareholder value creation through sustained company performance due to the current under-performance of the share price. In line with this, a number of alternative incentive structures were proposed to the board post year end.

Black management share scheme

The black management scheme was introduced in 2005 as part of the group's initial broad-based black economic empowerment (BBBEE) ownership structure. This scheme was created to benefit Group Five black managers in senior roles. The shares are held in trust and awarded to black managers on an annual basis. As mentioned, the committee had to approve a reduced allocation of black management shares per beneficiary as the total number of shares available is
limited due to the number of recipients on this scheme increasing. The scheme terminates in calendar 2012 by which time all shares in the trust need to be allocated to black managers. The board is currently reviewing its BBBEE ownership strategy which will include considering options for black management acquisition and retention in the future.

Appreciation

I thank my fellow board members for their valued input and close working relationships. I have enjoyed working with you. To our chief financial officer, Cristina Teixeira, a special word of acknowledgment for the significant work and outstanding effort during the year from both her and her team. I would also like to acknowledge the excellent work achieved by the remuneration committee and the contribution by Junaid Allie, the group human resources director.

The coming year will no doubt continue to present challenges to the group, but I am confident of facing these with the board and management team we have in place.

S.G. Morris

SG (Stuart) Morris
Non-executive chairperson of the audit and remuneration committees

5 August 2011

REMUNERATION REPORT

This spread supplements the discussion from the chairperson of the remuneration committee on page 67 with detailed information around remuneration practices and board and senior management remuneration.

Introduction

As outlined on pages 36 to 41, the performance of the board and our team is appraised against a set of clear objectives. Executive and senior management are measured and remunerated against a balanced scorecard aligned to people, the environment and group and individual performance.

Remuneration policy

Group Five believes in rewarding performance. Its remuneration policy therefore aims to attract, reward, motivate and retain skilled employees to execute current strategies and deliverables and to create long term organisational growth. It provides an integrated remuneration and reward model which is compared to the market from which it attracts and recruits employees with the skills required by the organisation. Our approach is to pay on the market or above. We offer an integrated approach to remuneration.

Remuneration practices

Below is a summary of the group's remuneration practices.

GROUP FIVE INTEGRATED APPROACH

	Elements	GROUP FIVE	Strategic intent
VARIABLE PAY	**Long term incentive**	Share options	Long term company performance Attraction/retention
VARIABLE PAY	**Short term incentive**	Annual bonus scheme	Company performance Individual performance Attraction/retention
COST TO COMPANY	**Base pay**	Monthly salary Hourly wage	Skills Knowledge Competencies Experience Attraction/retention Individual performance
COST TO COMPANY	**Benefits**	Medical aid Pension fund/providend fund Death benefit Car allowance	
	Tools	Company cars Computers/laptops Cellphones	Job requirement

Variable pay

Long term incentives

The group has long term incentive share schemes in place.

Management share scheme

Share appreciation rights (SARs) are allocated to executive and business unit directors. The intention of this scheme is to attract, retain and reward participants who are able to influence the group's performance. The allocations are based on seniority in accordance to an annual multiple of individual guaranteed earnings.

Employee category	Annual multiple of guaranteed earnings (AMOGE)*
CEO	1.5
Executive committee members	1.2
Managing directors of business units	0.9
Business unit directors (other than managing directors)	0.6

* *The SARs issued are based on AMOGE, which is the value of the shares based on the 30-day volume adjusted weighted average price in the 30 days prior to the issue, expressed as a multiple of the employee's annual cost to company package.*

No specific performance criteria are stipulated, although it is expected that employees who are granted these shares are employees who have and will continue to meet or exceed expectations.

The SARs scheme has been in existence for the last five years. A key issue for the scheme has been the slow appreciation of share value especially in tough market conditions. This lack of share appreciation limits the scheme's intent of motivating and retaining the participants of the scheme. To address this, a number of alternatives have been reviewed to address the current shortcomings of the scheme. These will be discussed further in F2012. Should a conclusion be reached on a new scheme, a circular will be issued to shareholders for their consideration.

Black management share scheme

The black management share scheme formed part of the group's initial BBBEE empowerment transaction in 2005. Allocations in terms of this scheme are made to black (Black, Indian and Coloured) managers in Peromnes grades 8 and higher, which represents middle management and above.

The scheme serves as an attraction to black managers to join and remain with the group. The shares are allocated in accordance with the trust rules set up at the time of launching the scheme. The allocation is based on a targeted annual multiple of guaranteed earnings, which may be adjusted by the remuneration committee based on the availability of shares for allocation and the number of participants.

Peromnes grade	Annual multiple of guaranteed earnings (AMOGE)*
Grade 5	2.0
Grade 6	1.5
Grade 7	1
Grade 8	0.75

* *The shares issued are based on AMOGE, which is the value of the shares based on the 30-day volume adjusted weighted average price in the 30 days prior to the issue, expressed as a multiple of the employee's annual cost to company package.*

As the black management share scheme was part of the group's BBBEE empowerment transaction in 2005, no specific performance criteria was required. However, it is accepted that employees who are granted these shares are employees who have and will continue to meet or exceed expectations. Refer to page 228 of the annual financial statements for additional information.

The scheme terminates in calendar 2012 by which time all shares in the trust need to be allocated to black managers. At that time the board will be required to establish whether to renew the scheme or to create a new programme as part of a future transaction.

Short term incentives

The group grants employees annual performance bonuses. These are based on group, business unit, project and individual performance over the financial year of the company. See pages 40 to 41 for the key performance areas used to assess senior management's incentive bonus entitlement. Employees are measured against a set of individual, job or site-specific criteria. When these are met or exceeded, a bonus is paid. Executives can earn up to three times their cost to company should they exceed their performance targets.

Cost to company

Base pay

Group Five benchmarks its remuneration practices against both the market from which it recruits and the most relevant markets where employees regularly seek alternative employment. We utilise a number of benchmark remuneration surveys to ensure our remuneration packages are both competitive and fair. We aim to pay our executives at the median of the market and employees at the 62th percentile.

The group follows a job grading system, which includes paying salaried employees at a level which meets market expectations for the particular job category. Our wage-based employees are paid either in line with a sectoral determination set out by the Department of Labour or in line with a union-negotiated wage.

Benefits

Group Five offers a number of employee benefits, as approved by the remuneration committee. These include medical aid, pension, provident fund and death benefits. These are also based on market trends and competitiveness.

REMUNERATION REPORT CONTINUED

Director and senior management remuneration

Non-executive directors' fees

Fees, services and expenses	Fees 30 June 2011 (R'000)	Expenses 30 June 2011 (R'000)	Total 30 June 2011 (R'000)	Fees 30 June 2010 (R'000)	Expenses 30 June 2010 (R'000)	Total 30 June 2010 (R'000)
Name						
P Buthelezi	740	–	740	719	–	719
L Chalker	550	223	773	510	214	724
SG Morris	944	–	944	547	–	547
KK Mpinga	494	–	494	383	–	383
MSV Gantsho#	–	–	–	91	–	91
LE Bakoro	394	–	394	318	–	318
JL Job	524	–	524	353	–	353
Z Motshotshisa~††	–	–	–	200	–	200
	3 646	223	3 869	3 121	214	3 335

 # Resigned in January 2010.
~ Appointed in June 2009.
†† Resigned in May 2010.

Non-executive directors' proposed fees F2012, subject to shareholder approval

Position	F2012 proposed fees (R per annum)	Comment	F2011 approved fees (R per annum)
Main board – chairperson	739 450	Includes all board and committee attendances	697 600
Lead independent non-executive director	318 000	Includes basic fee plus attendance fee for four meetings	300 000#
Main board – non-executive director	184 440	Includes basic fee plus attendance fee for four meetings	174 000
Audit committee – chairperson	184 440	Four meetings	174 400
Audit committee – member and attendee	92 430	Four meetings	87 200
Remuneration committee – chairperson	92 430	Four meetings	87 200
Remuneration committee – member and attendee	64 660	Four meetings	46 000
Risk committee – chairperson	122 960	Four meetings	116 000
Risk committee – member and attendee	64 660	Four meetings	61 000
Nominations committee – chairperson*	92 430	Two meetings	87 200
Nominations committee – member and attendee	48 760	Two meetings	46 000
SED committee – chairperson	122 960	Four meetings	116 000
SED committee – member and attendee	64 660	Four meetings	61 000
Extraordinary services – per hour	2 650	Applied for ad hoc and/or non-scheduled meetings. Capped at daily rate of R21 200	2 500

A deduction of R12 000 per meeting will apply for non-attendance at a scheduled meeting and R25 000 will be payable for attendance at a special board meeting.

** Included in chairperson's fee.*
 # A lead independent non-executive director was appointed in F2011.

Executive directors

Name	Salaries (R'000) 30 June 2011	Salaries (R'000) 30 June 2010	Performance and equity incentives (R'000) 30 June 2011	Performance and equity incentives (R'000) 30 June 2010	Total (R'000) 30 June 2011	Total (R'000) 30 June 2010
MR Upton	3 109	2 974	7 323	8 527	10 432	11 501
CMF Teixeira	1 840	1 745	3 326	3 010	5 166	4 755
	4 949	4 719	10 649	11 537	15 599	16 256

In line with the requirements of the new Companies Act, the group discloses the remuneration paid to prescribed officers who are defined as the group's executive committee. The three highest paid members of management are also reflected in the table below as per the recommended practice suggested in 2.26.2 of King III.

Executive committee exco members

	Salaries (R'000)		Performance and equity incentives (R'000)		Total (R'000)	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Prescribed officer 1	2 639	2 734	6 052	4 896	8 691	7 630
Prescribed officer 2	2 363	2 086	3 399	4 026	5 761	6 112
Prescribed officer 3	2 156	1 900	3 545	3 926	5 701	5 827
Prescribed officer 4	1 934	1 690	3 364	3 012	5 298	4 702
Prescribed officer 5	1 625	1 516	3 081	3 898	4 707	5 415
Prescribed officer 6	1 756	1 496	2 778	2 800	4 534	4 297
Prescribed officer 7	1 546	1 441	2 766	2 875	4 312	4 316
	14 018	12 863	24 986	25 435	39 004	38 298

Management committee members (excluding CEO, CFO and exco)

	Salaries (R'000)		Performance and equity incentives (R'000)		Total (R'000)	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Total earnings	25 536	22 304	25 121	26 582	50 658	48 886

Details of executive directors' share options and share appreciation rights

Name of director	Options granted – opening balance	Options granted during the current year	Strike price	Options exercised and paid	Options lapsed	Options granted – closing balance	Strike price	Options vested – closing balance
MR Upton								
2010								
	400 000	–	30,44	–	–	400 000	30,44	300 000
	71 000	–	54,81	–	–	71 000	54,81	23 430
	100 000	–	50,20	–	–	100 000	50,20	33 333
	100 000	–	43,07	–	–	100 000	43,07	–
	166 000	–	28,63	–	–	166 000	28,63	–
	–	150 484	34,09	–	–	150 484	34,09	–
	837 000	150 484		–	–	987 484		356 763
2011								
	400 000	–	30,44	–	–	400 000	30,44	400 000
	71 000	–	54,81	–	–	71 000	54,81	47 333
	100 000	–	50,20	–	–	100 000	50,20	66 667
	100 000	–	43,07	–	–	100 000	43,07	33 333
	166 000	–	28,63	–	–	166 000	28,63	55 333
	150 484	–	34,09	–	–	150 484	34,09	–
	–	138 154	27,70	–	–	138 154	27,70	–
	987 484	138 154		–	–	1 125 638		602 666
CMF Teixeira								
2010								
	25 000	–	24,77	–	–	25 000	24,77	25 000
	25 000	–	54,81	–	–	25 000	54,81	8 250
	25 000	–	50,80	–	–	25 000	50,80	8 250
	200 000	–	42,84	–	–	200 000	42,84	–
	72 000	–	28,63	–	–	72 000	28,63	–
	–	71 740	34,09	–	–	71 740	34,09	–
	347 000	71 740		–	–	418 740		41 500
2011								
	25 000	–	24,77	–	–	25 000	24,77	25 000
	25 000	–	54,81	–	–	25 000	54,81	16 667
	25 000	–	50,20	–	–	25 000	50,20	16 667
	200 000	–	42,84	–	–	200 000	42,84	66 667
	72 000	–	28,63	–	–	72 000	28,63	24 000
	71 740	–	34,09	–	–	71 740	34,09	–
	–	66 175	27,70	–	–	66 175	27,70	–
	418 740	66 175		–	–	484 915		149 001

REMUNERATION REPORT CONTINUED

Details of prescribed officers, including three highest paid members of management, share options and share appreciation rights

Prescribed officer	Options granted – opening balance	Options granted during the current year	Strike price	Options exercise and paid	Options lapsed	Options granted – closing balance	Strike price	Options vested – closing balance
Prescribed officer 1								
2010								
	18 750	–	12,55	–	–	18 750	12,55	18 750
	200 000	–	30,44	–	–	200 000	30,44	100 000
	42 000	–	54,81	–	–	42 000	54,81	13 860
	53 000	–	50,20	–	–	53 000	50,20	17 490
	100 000	–	28,63	–	–	100 000	28,63	–
	–	90 818	34,09	–	–	90 818	34,09	–
	413 750	90 818		–	–	504 568		150 100
2011								
	18 750	**–**	**12,55**	**–**	**–**	**18 750**	**12,55**	**18 750**
	200 000	**–**	**30,44**	**–**	**–**	**200 000**	**30,44**	**200 000**
	42 000	**–**	**54,81**	**–**	**–**	**42 000**	**54,81**	**28 000**
	53 000	**–**	**50,20**	**–**	**–**	**53 000**	**50,20**	**35 333**
	100 000	**–**	**28,63**	**–**	**–**	**100 000**	**28,63**	**33 333**
	90 818	**–**	**34,09**	**–**	**–**	**90 818**	**34,09**	**–**
	–	**83 377**	**27,70**	**–**	**–**	**83 377**	**27,70**	**–**
	504 568	**83 377**		**–**	**–**	**587 945**		**315 416**
Prescribed officer 2								
2010								
	18 750	–	12,55	18 750	–	–	12,55	–
	400 000	–	30,44	–	–	400 000	30,44	300 000
	42 000	–	54,81	–	–	42 000	54,81	13 860
	53 000	–	50,20	–	–	53 000	50,20	17 490
	99 000	–	28,63	–	–	99 000	28,63	–
	–	89 762	34,09	–	–	89 762	34,09	–
	612 750	89 762		18 750	–	683 762		331 350
2011								
	400 000	**–**	**30,44**	**400 000**	**–**	**–**	**30,44**	**–**
	42 000	**–**	**54,81**	**–**	**–**	**42 000**	**54,81**	**28 000**
	53 000	**–**	**50,20**	**–**	**–**	**53 000**	**50,20**	**35 333**
	99 000	**–**	**28,63**	**–**	**–**	**99 000**	**28,63**	**33 000**
	89 762	**–**	**34,09**	**–**	**–**	**89 762**	**34,09**	**–**
	–	**82 408**	**27,70**	**–**	**–**	**82 408**	**27,70**	**–**
	683 762	**82 408**		**400 000**	**–**	**366 170**		**96 333**
Prescribed officer 3								
2010								
	300 000	–	30,44	175 000	–	125 000	30,44	50 000
	34 000	–	54,81	–	–	34 000	54,81	11 220
	150 000	–	50,20	–	–	150 000	50,20	49 500
	91 000	–	28,63	–	–	91 000	28,63	–
	–	81 842	34,09	–	–	81 842	34,09	–
	575 000	81 842		175 000	–	481 842		110 720
2011								
	125 000	**–**	**30,44**	**–**	**–**	**125 000**	**30,44**	**125 000**
	34 000	**–**	**54,81**	**–**	**–**	**34 000**	**54,81**	**22 667**
	150 000	**–**	**50,20**	**–**	**–**	**150 000**	**50,20**	**100 000**
	91 000	**–**	**28,63**	**–**	**–**	**91 000**	**28,63**	**30 333**
	81 842	**–**	**34,09**	**–**	**–**	**81 842**	**34,09**	**–**
	–	**75 469**	**27,70**	**–**	**–**	**75 469**	**27,70**	**–**
	481 842	**75 469**		**–**	**–**	**557 311**		**278 000**

Prescribed officer	Options granted – opening balance	Options granted during the current year	Strike price	Options exercise and paid	Options lapsed	Options granted – closing balance	Strike price	Options vested – closing balance
Prescribed officer 4								
2010								
	12 500	–	12,55	–	–	12 500	12,55	12 500
	25 000	–	24,77	–	–	25 000	24,77	25 000
	100 000	–	54,81	–	–	100 000	54,81	33 000
	39 000	–	50,20	–	–	39 000	50,20	12 870
	75 000	–	28,63	–	–	75 000	28,63	–
	–	72 514	34,09	–	–	72 514	34,09	–
	251 500	72 514		–	–	324 014		83 370
2011								
	12 500	–	12,55	12 500	–	–	12,55	–
	25 000	–	24,77	–	–	25 000	24,77	25 000
	100 000	–	54,81	–	–	100 000	54,81	66 667
	39 000	–	50,20	–	–	39 000	50,20	26 000
	75 000	–	28,63	–	–	75 000	28,63	25 000
	72 514	–	34,09	–	–	72 514	34,09	–
	–	66 889	27,70	–	–	66 889	27,70	–
	324 014	66 889		12 500	–	378 403		142 667
Prescribed officer 5								
2010								
	150 000	–	51,00	–	–	150 000	51,00	49 500
	50 000	–	50,20	–	–	50 000	50,20	16 500
	68 000	–	28,63	–	–	68 000	28,63	–
	–	67 938	34,09	–	–	67 938	34,09	–
	268 000	67 938		–	–	335 938		66 000
2011								
	150 000	–	51,00	–	–	150 000	51,00	100 000
	50 000	–	50,20	–	–	50 000	50,20	33 333
	68 000	–	28,63	–	–	68 000	28,63	22 667
	67 938	–	34,09	–	–	67 938	34,09	–
	–	62 668	27,70	–	–	62 668	27,70	–
	335 938	62 668		–	–	398 606		156 000
Prescribed officer 6								
2010								
	37 500	–	18,56	37 500	–	–	18,56	–
	19 000	–	54,81	–	–	19 000	54,81	6 270
	100 000	–	50,20	–	–	100 000	50,20	33 000
	70 000	–	28,63	–	–	70 000	28,63	–
	–	63 362	34,09	–	–	63 362	34,09	–
	226 500	63 362		37 500	–	252 362		39 270
2011								
	19 000	–	54,81	–	–	19 000	54,81	12 667
	100 000	–	50,20	–	–	100 000	50,20	66 667
	70 000	–	28,63	–	–	70 000	28,63	23 333
	63 362	–	34,09	–	–	63 362	34,09	–
	–	58 170	27,70	–	–	58 170	27,70	–
	252 362	58 170		–	–	310 532		102 667

REMUNERATION REPORT CONTINUED

Prescribed officer	Options granted – opening balance	Options granted during the current year	Strike price	Options exercise and paid	Options lapsed	Options granted – closing balance	Strike price	Options vested – closing balance
Prescribed officer 7								
2010								
	45 000	–	12,55	–	–	45 000		45 000
	300 000	–	30,44	–	–	300 000	30,44	225 000
	30 000	–	54,81	–	–	30 000	54,81	9 900
	37 000	–	50,20	–	–	37 000	50,20	12 210
	69 000	–	28,63	–	–	69 000	28,63	–
	–	61 672	34,09	–	–	61 672	34,09	–
	481 000	61 672		–	–	542 672		292 110
2011								
	45 000	**–**	**12,55**	**–**	**–**	**45 000**	**12,55**	**45 000**
	300 000	**–**	**30,44**	**150 000**	**–**	**150 000**	**30,44**	**150 000**
	30 000	**–**	**54,81**	**–**	**–**	**30 000**	**54,81**	**20 000**
	37 000	**–**	**50,20**	**–**	**–**	**37 000**	**50,20**	**24 667**
	69 000	**–**	**28,63**	**–**	**–**	**69 000**	**28,63**	**23 000**
	61 672	**–**	**34,09**	**–**	**–**	**61 672**	**34,09**	**–**
	–	**56 619**	**27,70**	**–**	**–**	**56 619**	**27,70**	**–**
	542 672	**56 619**		**150 000**	**–**	**449 291**		**262 667**

Details of share options and share appreciation rights issued to manco (excluding CEO, CFO and exco)

Manco	Options granted – opening balance	Options granted during the current year	Strike price	Options exercise and paid	Options lapsed	Options granted – closing balance	Strike price	Options vested – closing balance
2010								
	12 500	–	12,55	12 500		–	12,55	–
	50 000	–	12,28	10 000		40 000	12,28	40 000
	18 750	–	18,56	18 750		–	18,56	–
	18 750	–	20,00	18 750		–	20,00	–
	25 000	–	20,25	–		25 000	20,25	25 000
	262 500	–	24,77	100 000		162 500	24,77	162 500
	25 000	–	26,39	–		25 000	26,39	25 000
	75 000	–	31,87	–		75 000	31,87	37 500
	267 000	–	54,81	–		267 000	54,81	91 410
	377 000	–	50,20	–		377 000	50,20	124 410
	32 300	12 089	16,03	–		44 389	16,03	–
	100 000	–	33,63	–		100 000	33,63	–
	692 000	42 505	28,63	–		734 505	28,63	–
	–	625 380	34,09	–		625 380	34,09	–
	1 955 800	679 974		160 000		2 475 774		505 820
2011								
	40 000	**–**	**12,28**	**–**	**–**	**40 000**	**12,28**	**40 000**
	75 000	**–**	**20,00**	**–**	**–**	**75 000**	**20,00**	**75 000**
	162 500	**–**	**20,25**	**75 000**	**–**	**87 500**	**20,25**	**87 500**
	350 000	**–**	**24,77**	**–**	**–**	**350 000**	**24,77**	**350 000**
	25 000	**–**	**26,39**	**–**	**–**	**25 000**	**26,39**	**25 000**
	75 000	**–**	**31,87**	**–**	**–**	**75 000**	**31,87**	**75 000**
	277 000	**–**	**54,81**	**–**	**30 000**	**247 000**	**54,81**	**164 667**
	377 000	**–**	**50,20**	**–**	**42 000**	**335 000**	**50,20**	**223 333**
	69 389	**4 147**	**16,03**	**–**	**–**	**69 389**	**16,03**	**27 159**
	100 000	**–**	**33,63**	**–**	**–**	**100 000**	**33,63**	**33 333**
	754 505	**–**	**28,63**	**–**	**98 000**	**656 505**	**28,63**	**14 168**
	714 454	**–**	**34,09**	**–**	**–**	**714 454**	**34,09**	**–**
	–	**577 766**	**27,70**	**–**	**70 755**	**507 011**	**27,70**	**–**
	3 019 848	**581 913**		**75 000**	**240 755**	**3 281 859**		**1 115 160**

REVIEW FROM THE CHAIRPERSON OF THE RISK COMMITTEE

The impairment in Construction Materials indicated a need for more stringent assessment processes.

As a board we monitor the current climate carefully to ensure the business will weather the continuation of the recessionary cycle.

Kalaa Mpinga

Strategy | Risk | Corporate governance | Legal regulatory & compliance | People | Planet | Performance

The last 12 months have continued to be a turbulent period for the global economy. Momentous political change, most notably in North Africa and the Middle East, took place against a backdrop of economic uncertainty underpinned by a profound financial crisis in the Eurozone. These dynamics have led to a more volatile and unpredictable business environment. Group Five has worked hard during the year to understand the implications of recent developments for its markets and operations and to take the actions necessary to adapt to these difficult trading conditions.

The role of the board risk committee is to provide assurance to the board that the risk management policy and strategy set by the board is operating effectively, to ensure that a policy, framework and methodology is in place for the group to identify, analyse and manage risk to comply with statutory laws and regulations and to ensure that management acts on any suspected fraudulent or criminal behaviour. The risk committee also focuses strongly on ensuring that safety is a priority in the group and proactively managed.

During the year, a large range of risks was therefore considered by the committee. The review from the group risk officer on page 101 discusses these in more detail. In this report, I would like to comment on three major issues which were at the forefront of our attention during the year:

- Continued recessionary pressure, which resulted in further weakness in our major markets and fierce price competition
- The potential for geopolitical shifts and changes to territorial and regional stability which threaten our existing operations and strategic growth objectives
- Taking these two issues into consideration, the need to constantly monitor and review the risk-bearing capacity of the group, its risk profile and whether the group is able to effectively manage potential investments or expansions

Continuing recessionary pressure and construction market weakness

Estimates of global recovery are subdued, with policymakers and analysts starting to express concerns over the delayed timing of a recovery and its effect on economic and financial assumptions, job creation and inflationary pressures. Regulators are adopting a cautious approach and continue to recommend tighter capital requirements for banks, which are likely to result in higher lending rates and a decreased appetite for risk.

As a board we are monitoring the current climate carefully to enable the business to weather any continuation of the recessionary cycle. Of significance in the South African market is the current price

Refer to page 2 of the CD contained within this integrated report for more information on our safety performance.

REVIEW FROM THE CHAIRPERSON OF THE RISK COMMITTEE CONTINUED

competition which erodes margins and results in less favourable commercial terms. Cost control, as well as adequate working capital management is therefore critical, particularly given the continuing escalation of input costs, including steel, fuel and labour. Also of concern is the slow progress in the delivery of long-awaited national infrastructure contracts.

As a commodity producer and exporter, South Africa has been shielded from the worst effects of the global recession. However, the South African construction market has remained weak with a lack of spending against previously committed infrastructure budgets and limited private sector spend. Group Five also operates in other markets which have been heavily hit by the downturn and by the depth and length of the recession, particularly Eastern Europe and the Middle East.

Looking forward, however, economic forecasters are bullish about the economic potential of Africa. Foreign direct investment (FDI) growth into Africa is forecast from calendar 2012 onwards, resulting in infrastructure and development initiatives which will create potential opportunities for the group as it seeks to expand its African operations. The group's strong operating track record in Africa and our established risk management framework will position us to take advantage of these opportunities as they arise.

We remain committed to our home country of South Africa and are hopeful that the planned public sector spend will receive impetus going forward to ensure increased contract flow.

Geopolitical trends

Globalisation has brought about both challenges and opportunities. As we have seen with the periods of unrest in North Africa and the Middle East, volatile political circumstances can quickly escalate and amplify political risk across borders. Our strategic growth objectives must therefore be tempered with a clear understanding of trends which can lead to increased political volatility which may result in business risk and employee safety. As a board we regularly review trends and monitor changes in the political landscape in the territories and regions where we operate and those which are strategic targets.

To successfully interpret geopolitical events and identify their potential for impact on our growth objectives, we need to rely on input from external stakeholders and continue to refine our systems for filtering risk. We do this with dedicated resources which continuously assess the risk profiles of the countries where we operate or plan to operate. We are also very conscious of maintaining sufficient flexibility to modify our business strategy as circumstances change to ensure that the business remains sustainable in a changing environment.

Assessing contract risk and group risk-bearing capacity

Each contract and business initiative has to be adequately assessed. The board's capacity to contribute to contract and enterprise risk reviews is therefore an area of continuous focus. Against a climate of reduced capital availability, we have to be particularly cautious that when capital is committed, it is done in a way which maximises returns and ensures business sustainability.

The group's recent impairment of its Construction Materials acquisitions highlighted the need for more stringent assessment processes and board reviews in the application of capital and resources.

Furthermore, it is no longer sufficient to only investigate technical risk. The brief outline of macro-economic and geopolitical trends given in my review shows us that our approach to assessing business initiatives has to be holistic. We need to take into account an increasingly volatile environment and markets which have weakened to such an extent that profit margins and cash flows are under pressure.

Over the last few years, we have made significant progress in this area with further refinement of contract risk assessments, reviews and bid approvals. More of the group's businesses are working internationally and has established its ability to bid for larger contracts with more complexity. The board has thus recognised the need to lead the development of systems and processes to establish measures which indicate the level of risk that is acceptable to the board and can be borne by the group, as well as to ensure the constant monitoring of the group's risk-bearing capacity (RBC).

Appreciation

I thank my colleagues on the board risk committee for their continued engagement in our risk management processes and their contributions and support. I also thank the Group Five risk team under Guy Mottram as group risk officer for continuing to provide excellent quality of risk analysis and reporting.

KK (Kalaa) Mpinga
Non-executive charperson of the risk committee

5 August 2011

REVIEW FROM THE CHAIRPERSON OF THE SED COMMITTEE

R6,1 million

SED spend

53%

of budget was spent on education and skills development

Lynda Chalker

Strategy | Risk | Corporate governance | Legal regulatory & compliance | People | Planet | Performance

Many communities in South Africa and in the rest of Africa are subject to extreme poverty. Group Five remains committed to effective socio-economic development as a means to contribute to the upliftment of disadvantaged communities through structured programmes.

Group Five's business model, as outlined on page 4, places sustainability issues at the centre of the business' strategy and ensures an integrated approach to manage these aspects. To be successful and sustainable, our work in socio-economic development must be both relevant to Group Five and contribute meaningfully to the advancement of the societies in which we operate.

The role of the socio-economic development (SED) committee of the board is to guide the group's social responsibility activities to ensure their continuing success against both of these parameters. The committee provides strategic direction to management in terms of SED. It formulates and implements policy, approves the budget, evaluates the effectiveness of interventions and ensures centralised reporting.

Within our SED framework, we seek to allocate 55% of spend to education and skills development, 35% to economic development and 10% to social grants and programmes. Even in these difficult economic times, during the year we spent R6,1 million, which is more than the 1% spend of net profit after tax required by the dti Code of Good Practice.

To ensure effective impact, we analyse community needs and the potential involvement of key stakeholders before investing in initiatives. Our charter is to focus on education and the transfer of skills which empower beneficiaries to take control of their future.

Achieving our objective of creating programmes which have a sustainable impact requires more intervention than simply providing once-off grants or donations. It requires us to partner with beneficiaries to strengthen governance and increase capacity in grass roots organisations which are often informally structured to ensure they report back to the board regularly on progress through the SED committee. It also requires us to monitor beneficiaries to ensure that resources are not concentrated in selected projects separately funded by multiple organisations.

However, due to economic challenges in South Africa following the global downturn, the group received a significant increase in applications for emergency social grants. Although we believe that social grants do not create sustainability in the long term, due to the pressure during this time on the most vulnerable of society, we made a conscious decision to temporarily veer away from our long term SED strategy to provide urgent, short term relief to a number of charities. The group also launched an employee assistance programme to support the group's HIV/Aids programme. These programmes were both funded as social spend under the SED programme in line with the dti Code of Good Practice and the Construction Charter. This led to a 38% spend on social grants compared to the 10% target.

Refer to page 65 of the CD contained within this integrated report for more information on SED.

REVIEW FROM THE CHAIRPERSON OF THE SED COMMITTEE CONTINUED

We remain committed to our strategy of creating meaningful impact and long term sustainability. In the new year we will therefore strongly drive alignment to meet this target.

Employee engagement

Over the past year, the group has progressed in terms of involving a broader base of employees in the group's SED initiatives. Employee engagement was encouraged in a number of ways, including:

- Allowing employees time during their normal working hours to be involved in various group community programmes
- Promoting skills transfer and mentoring of community organisations and emerging enterprises

In line with increasing our focus on employee engagement, we have improved our communication of SED programmes to stakeholders. Our website was significantly upgraded with disclosure on community investment and we have worked on raising awareness about the group's programmes to all stakeholders. However, we have a lot more to do around this.

As Group Five's expansion continues beyond South Africa into the rest of Africa, the Middle East and Eastern Europe, we will operate in regions with diverse development priorities. Our SED programmes are a vital offering with this expansion. To remain relevant, our socio-economic development will adapt to local requirements and sustainability objectives. We have a clear strategy in place for this.

Focus areas

During the year, we achieved a number of impacts in the three areas of our SED focus.

Education and skills development programmes

Supporting skills in mathematics and science

The lack of essential maths and science skills is one of the major obstacles to economic growth in South Africa. As such, Group Five has responded to the request by the South African government to industry to support the New Economic Growth Path (NEGP). The NEGP was launched in November 2010 and aims to develop at least 30 000 additional technicians/engineers by 2014 and 50 000 new artisans by 2015. Support for the NEGP is critical in underpinning future growth for Group Five as the skills targeted through the programme are essential for the successful development of our industry.

Projects undertaken by the group in this area include:

- Sponsorship of TRAC mobile science laboratories. These have supported over ten schools with no access to traditional laboratories or basic equipment
- Assistance in maths and education support to over 500 learners in five schools through the Dinaledi schools programme
- Financial and curriculum improvement support to two further education and training (FET) colleges in Gauteng and Western Cape
- The sponsorship of technical laboratories at the University of the Witwatersrand
- The sponsorship of the Women in Engineering and the Built Environment programme at the University of Johannesburg. Through this initiative the university has seen a marked increase of young women enrolling in engineering and construction-related studies

People at the Gate

Unemployment and lack of skills continue to plague many communities. The group launched a unique industry initiative in 2006 called "People at the Gate" with the aim of training unskilled people arriving at construction sites in search of employment. The programme has been very successful, with over 90% of individuals trained attaining employment.

Economic empowerment

Our long term aim in this area is to drive independence in communities through skills transfer and creation of sustainable employment, particularly for women and the youth. As outlined, the group over-spent on its social grant component of the budget, which affected our economic spend during the year. This led to a 9% actual economic spend versus a 35% target. This will receive urgent attention in F2012.

Social support

As outlined, a huge increase in requests for emergency grants was seen during the year. The business units and the group felt it necessary to assist a number of worthy causes. Refer to page 65 on the CD contained within this integrated report for more information.

A key impact in terms of our social support is our employee HIV/Aids programme. Over the last two years, the group rolled out awareness counselling and testing (ACT) programmes to ensure that at least 80% of our employees in South Africa know their HIV status over a two-year period and can take the necessary measures to combat this disease. The group's employee assistance programme also extends to victims of HIV/Aids in various communities, which will make a big difference to employees and family members living with HIV and Aids.

Future focus

In F2012, the committee will build on the progress made in previous years. Particular focus areas will be:

- Skills development and the support of entrepreneurial projects that will empower communities to sustain themselves
- Support for mathematics and science education in selected schools to contribute towards building a pool of quality matriculants who are able to enroll for further studies in tertiary institutions
- Gender transformation and economic empowerment programmes
- Meaningful SED programmes in the various African countries in which Group Five operates
- To sustain and grow the engagement and involvement of employees in SED projects
- To enhance the impact of our SED programmes through improved governance and the more efficient management of SED initiatives and resources
- Closer monitoring and guidance to business units to ensure alignment and spend within the key focus areas of our SED strategy and the targeted spend
- Further communication of SED programmes to ensure external stakeholders understand the group's strategy

Appreciation

I thank all the members of the SED committee of Group Five for their guidance and assistance in achieving these vital goals and to all the employees of Group Five for their continuing involvement in these efforts. A great deal still has to be done to continue to work meaningfully with the communities in our areas of operations. I look forward to enabling further changes through our SED implementation during the coming year.

Baroness L (Lynda) Chalker
Non-executive chairperson of the SED committee

5 August 2011

REVIEW FROM THE CEO

25%

Current over-border revenue

40%

Over-border revenue target

Mike Upton

Strategy · Risk · Corporate governance · Legal regulatory & compliance · People · Planet · Performance

Last year Group Five's management expected "sufficient opportunities to emerge in its current and targeted markets to be optimistic that during F2011 the following few years will become better defined and that the markets we serve, as well as those we plan to serve, will recover and offer good growth potential".

Although the construction industry in the group's targeted geographies and sectors still has solid medium and long term prospects, the reality that has emerged over the short term is that conditions have been much worse than envisaged during the business planning and budgeting undertaken in F2010.

Market weakness

The slowdown within the construction sector in the last two years following the global market crisis has worsened trading conditions in the construction and materials markets in which Group Five operates. This has negatively impacted performance in the current year, in contrast to the 2010 financial year when the group still benefited from the majority of large public sector contracts awarded ahead of the 2010 FIFA World Cup. In the interim, to mitigate this environment to the extent possible, the group has successfully re-entered targeted African markets where it has an established track record.

The domestic building and civil engineering tender market has seen limited work flow. There is currently over-capacity in the industry following the completion of large public sector infrastructure contracts awarded up to June 2010. Current contracts are therefore heavily contested by large and small contractors with wide pricing spreads. This results in high risks in terms of sub-standard cost estimating by some and extremely aggressive pricing by others.

The group has well-defined estimating systems and has been able to determine that many bids are being awarded to contractors with limited operational experience and at pricing below cost to execute.

Dealing with the challenges

Against these challenging times, the group has not deviated from its stated strategy, which includes:

- Further geographic expansion into familiar African territories
- Developing our own contracts through the group's capabilities of design and build and concessions
- Turnkey construction supporting technology partnerships, with a particular emphasis on mining, power and transport

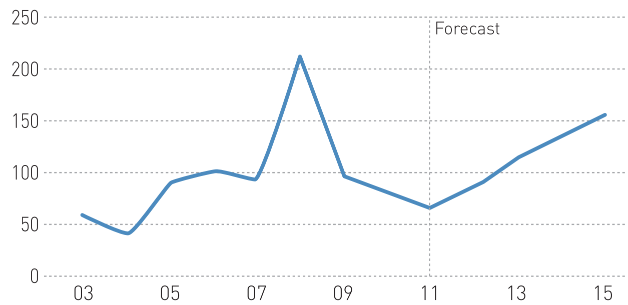
In a purposefully defensive strategy, the group exercised strong discipline during the year to avoid the potential for future losses from low to zero margin work that could be currently secured.

To rebuild order books in a sustainable manner, we have focused on a broader international stance, with an immediate emphasis on a larger African footprint involving more of our businesses re-establishing a viable Middle East business and achieving early wins in the re-emergence of the mining and energy markets in Africa. Establishing a connection to the long term growth prospects in the Australian market as well as China's quest for African resources and infrastructure is work in progress.

REVIEW FROM THE CEO CONTINUED

Our approach to withstand current market conditions is to avoid, for as long as is possible, securing an order book of low margin work with poor cash flows. This has allowed the group to maintain a healthy balance sheet supported with an appropriate gearing and liquidity position.

Capital investment in Africa from new FDI projects (US$ billion)



Source: Oxford Economics/FDI Intelligence.

In line with our strategy of entering alternative markets with stronger margin and cash prospects than domestic tender work, we commenced business development activities and have submitted bids into several new African countries which meet the group's risk requirements. More of the group's business units established themselves in countries where the group has previous operating experience. The migration of resources back into Africa was successful, with the over-border order book increasing from 24% last year to 27% this year.

We also demonstrated our competence in design and build, as well as engineer, procure and construct (EPC) contracting capability. In line with this, we successfully executed the combined power/steam plant for Sasol at Secunda and secured a US$206 million (R1,4 billion) contract financed by the Development Bank of South Africa (DBSA) for the master planning, design, construction and operation of the first phase of a new road transport network for the Zimbabwean National Roads Authority.

The group is hopeful of securing two private public partnership (PPP) contracts in South Africa for the Department of Rural Development and Land Reform's head office and the Tswane Munitoria office precinct. The group has been selected as the preferred bidder on both these contracts.

The Group Five-led consortium was selected as one of two bidders to submit best and final offers (BAFOs) for the significant N1 – N2 Winelands toll road concession in the Western Cape. The group is also on track to develop the Kalahari Solar Energy PPP in the Northern Cape, as well as a gas power PPP in Bulgaria. These are progressing well, although regulatory delays have slowed both programmes.

Internally, attention has been applied to managing costs. Consolidation of certain Construction business units' support structures was completed during the first half of the financial year and an invasive restructuring was completed at all sites and locations of our Construction Materials businesses in the second half. Cost reductions were also implemented in our Manufacturing cluster in parallel with a focus on product export expansion. The group's corporate office cost base was reduced and approved budgets consistently monitored. The group's capital expenditure was reviewed and strictly limited to essential expenditure supported by acceptable returns in line with the group policy implemented a few years ago.

Despite difficult conditions, the group did not reduce its commitment to its knowledge base and sustainable future and maintained its training and skills development budgets.

Operating results

With the exception of the Middle East, the group's largest cluster, Construction, held up well, based on good contract execution and the benefit of a number of longer term and certain African contracts which were strategically secured in previous periods.

The Middle East results were affected by a number of once-off costs. These include resources focused on regional business development and the successful progressive commercial and financial close of

legacy contracts in Dubai, the time discounting effect of reflecting the present value of unchanged certified debt on one of the group's previously reported cancelled contracts and costs for corrective action on a Jordanian pipeline contract.

Manufacturing and Construction Materials suffered from a combination of declining volumes, delayed contract awards, a strong rand and pricing pressures. In addition, the Construction Materials cluster is capital intensive with a material long term asset base. In the financial year the business bore high plant lease costs and suffered an impairment of R550 million, as outlined in February 2011.

In spite of sluggish domestic concessions and PPP activities and the economic pressures in Europe, the performance of our Investments and Concessions cluster remained stable as new toll roads came on line in Eastern Europe and South Africa.

Safety

Group Five further increased its management focus on safety during the reporting period. Tragically, we suffered six fatalities within our sub-contractor base. The group considers zero harm as the only acceptable performance benchmark and is committed to reversing this trend. We empathise with the families of each of the people who so sadly lost their lives.

Refer to page 2 of the CD contained within this integrated report for more information on our safety performance.

With a reduction in the number of man-hours worked this year due to reduced revenue levels and a poor performance stemming from our sub-contractor statistics, the group's disabling injury frequency rate (DIFR), including sub-contractors, worsened to 0.54 (F2010: 0.43). This is unacceptable to the group.

To address the poor sub-contractor safety performance, the group will ensure improved vetting, selection and induction procedures as part of a more vigorous sub-contractor approval process.

Competition Commission

As outlined in the review from the chairperson, we proactively engaged with the Competition Commission in its investigation into the construction sector. We have been granted conditional leniency by the Commission pending the finalisation of the broader industry investigation. We believe a proactive approach was required to ensure we adhere to our culture of transparency and integrity.

Refer to page 102 for more information.

Outlook

Looking forward, the current market weakness is expected to extend for longer, with a slow rate of a broader market recovery materialising from the second half of F2012, which will inform trading performance for F2013.

The group's expectations are therefore that margins will decline into F2012, with some order book recovery forecast for the second half which would provide a base for margins improving in F2013.

Our Target Opportunity Pipeline (TOP) is the indicator for medium to long term opportunities and performance and is populated with targeted contracts which match the group's capabilities and areas of operation. The pipeline is further filtered as contracts are developed to provide a base for forecasting of financial performance. The profile indicates a substantial reduction in our reliance on the public sector and South Africa. Timing uncertainty, however, is a risk to forecasting at present.

REVIEW FROM THE CEO CONTINUED

Below we outline some key information around the potential for growth existing in Africa.

Africa TODAY

Total population: 1 billion[1]	Population under 15: 41%[2]	Adult literacy: 62%[3]
GDP income per capita is 10th of world average[4]	Around 45% living on US$1 a day[5]	Mobile phone subscribers: 37%[6]
Population living in urban areas: 40%[7]	Collective GDP (2008): US$1,6 trillion[9]	Combined consumer spending (2008): US$860 billion[9]

Africa TOMORROW

Total population: 1,4 billion[1] by mid 2025[10]	Total population: 2,1 billion[1] by mid 2050[11]	128 million households with discretionary income by 2020[12]
Consumer spending will be US$1,4 trillion by 2020[13]	Collective GDP will be US$2,6 trillion by 2020[14]	Around 47% of Africans will be living in cities by 2025[15]

Source: Ernst & Young's 2011 "Africa attractiveness survey".

1. *Demographic Indicators, www.africaneconomicoutlook.org, January 2011.*
2. *2010 PRB World Population data sheet, www.prb.org*
3. *World Bank data, January 2011.*
4. *UN data, http://data.un.org, January 2011.*
5. *Poverty and Income Distribution Indicators, www.africaneconomicoutlook.org, January 2011.*
6. *2010 PRB World Population data sheet, www.prb.org*
7. *The State of African Cities 2010, UN Habitat — Statistical Annex.*
8. *"Africa – Growth Versus Corruption", All Africa, 20 December 2010.*
9. *"Domestic Resources and Diversification Key to Africa's Economic Growth – UN Official", All Africa, 28 October 2010.*
10. *2010 PRB World Population data sheet, www.prb.org*
11. *2010 PRB World Population data sheet, www.prb.org*
12. *"KFC intends to double its restaurants in Africa", The Wall Street Journal Asia, 9 December 2010.*
13. *"In Africa, consumers pick up pace", The Wall Street Journal Europe, 14 January 2011.*
14. *"Business in Africa, a whole new scramble", Financial Mail, 25 June 2010.*
15. *The State of African Cities 2010, UN Habitat — Statistical Annex.*

Construction target opportunity pipeline* – contracts being targeted by the group as at 30 June 2011 by sector

	International			Local			Total
Sector	Private	Public	Total	Private	Public	Total	
Mining	15	–	15	2	–	2	**17**
Industrial	1	–	1	1	–	1	**2**
Power	12	–	12	17	8	25	**37**
Oil and gas	–	–	–	1	1	2	**2**
Water and environment	2	6	8	–	2	2	**10**
Building – Real estate	5	3	8	19	9	28	**36**
Housing – Real estate	2	–	2	3	3	6	**8**
Transport	2	7	9	–	13	13	**22**
Total	**39**	**16**	**55**	**43**	**36**	**79**	**134**

* *Our Target Opportunity Pipeline is the group's indicator of medium to long term opportunities and performance. It represents the group's targeted contracts and includes only the value that could be traded by the group and not total contract values. In addition, it is not to be confused with the secured order book nor does the group expect to secure the full pipeline presented.*

Looking forward

Key focus areas for F2012	Desired results
Focus on improved efficiencies and a more effective operating structure.	Target cost cuts without impacting delivery Implement a revised structure and operating model to enable delivery in tough markets. Entrench the group's sector and geographic focus in line with its strategy
Review portfolio of businesses.	Thoroughly review current portfolio of businesses to ensure that the group consists of businesses in which it can intervene to mitigate market cycles with returns aligned to its group measures
Reduce reliance on the South African market with a sustainable geographic diversification.	The current over-border target for group revenue is 40%. This will be reviewed during F2012 based on markets, capacity and retained business
Improved safety throughout the group.	A 20% improvement in the group's DIFR, including sub-contractors, through a focus on appropriate sub-contractor selection
Expanding contribution from turnkey multi-disciplinary construction.	Demonstrate the group's capability in its target sectors through rebuilding the order book
Continue to deliver on our stated strategy of concessions portfolio growth.	Establish future returns in power, PPP and transport in the Southern African Development Community (SADC) through securing of contract awards where the group is currently a preferred bidder or co-developer

Appreciation

During this year we experienced an unprecedented concentration of market and operational challenges. Huge appreciation must therefore go to the group's stakeholders who have supported the management team in a difficult time.

I also thank the board and my executive management team and their families, all of whom were required to take on multiple additional responsibilities to deliver this year's results.

Lastly, a special thank you to each and every Group Five employee, many of whom worked extraordinary hours in the interest of seeing their Group Five succeed.

MR (Mike) Upton
Chief executive officer

5 August 2011

REVIEW FROM THE CFO

Cristina Teixeira

Against extremely tough markets we focused on limiting margin erosion on contracts and preserving cash.

Ensuring the optimal balance between short term investment and long term returns is constantly evaluated.

The group defines group goals which provide a dashboard to continuously monitor the group's health, with a particular focus on sustainable shareholder returns. Refer to page 44 of this report. These targets are revised from time to time to take into account changes in the group's strategic outlook. The material issues discussed below are referenced back to the group's delivery against the four primary financial group goals of margin M, cash C, gearing G and return on equity ROE.

Introduction

South Africa has an informal target of increasing gross domestic fixed investment (GDFI) spend to over 25% of gross domestic product (GDP) and maintaining it at that level. Internationally there is a reasonably clear relationship between increased investment spend and sustained GDP, with the level of investment ultimately determining the level of employment. The rapid slowdown in investment activity over the past year in South Africa has therefore meant that investment spending now represents only 18% of local GDP. This is the lowest level since 2006 and at extremely low levels by emerging market standards.*

Managing the downturn M C

Against this economic backdrop, the group had to consider a number of difficult decisions.

Rightsizing the business

A year and a half ago the group identified the need to begin rationalising its operational and support structures in preparation for a reduced construction order book. The decreased activity was pre-empted and based on the completion of mega local public infrastructure contracts and the worsening global economic conditions.

At the time, the group had to decide whether it was going to increase order in-take, at potentially low margin and cash negative returns to cover unutilised assets, or whether it would reduce the asset base and focus on margin and cash retention. The group has clearly communicated its strategy of choosing to focus on operating margins and cash while managing the risk of losing key capacity.

During the last 18 months, the group has therefore successfully:

- Reduced non-core costs
- Retained core skills required in anticipation of a market return
- Consolidated support structures at business unit and corporate level
- Reduced the extent of "holding costs" of unutilised resources which are unable to provide immediate returns

This process is not complete. In support of the group's strategy, in particular its geographic expansion, a restructure of the business and

Readers are requested to review this report along with the consolidated annual financial statements, which are presented on pages 184 to 255.

* *Stanlib economic commentary – Kevin Lings – 30 June 2011.*

not only a consolidation thereof is therefore required and will be progressively implemented during F2012

Furthermore, in the last few years the group has served a mainly South African public sector market whereas its traditional client base has previously been private sector oriented with a strong track record of trading over-border. Our businesses must therefore once again structurally adapt to cater for a return to over-border operations. We have started to successfully address this in support of the over-border revenue of 25% in the year under review.

Address non-performing businesses

Construction Materials cluster M C G ROE

As outlined in various reviews in this integrated report, the Construction Materials cluster required substantial management intervention to address its negative returns and cash absorption.

Impairment

A lack of clarity on the timing for recovery of construction materials markets, including no visible recovery in the private residential and building sector and a delay in contract roll out and awards in the public sector, required management to apply a cautious approach to determining the carrying value of Construction Materials assets.

The group processed an impairment of R325,6 million in the prior year and a further R550,5 million in the current financial year. Tests performed at year end indicated that no further impairment adjustments were required. The R550,5 million impairment adjustment includes a R24,9 million goodwill write off relating to the acquisition of the group's cement extender business in the 2008 financial year.

The assessment of the carrying value of assets is dependent on expected cash flows which are inherently uncertain and could change over time. They are affected by a number of factors. These include estimates of costs of production, sustaining capital expenditure and product markets. This assessment required a considerable amount of attention to ensure fair presentation of the financial results.

Operational cash costs

Following a difficult six months to December 2010, as previously reported, management took a conscious decision to refocus the Construction Materials cluster in support of a cash preservation strategy. This required a radical shift in operational structure and significant change management.

A full review of the business and their cost structures was performed with certain functions decentralised to site level and a number of functions consolidated into a group shared services environment. Although this may have introduced additional costs in the short term, in the form of restructuring and impairment charges, the group is confident that these actions were the optimal route to take as cash absorption has reduced and some operational efficiency improvements noted.

However, as a capital intensive group of businesses, this cluster is highly geared and is currently unable to service lease repayments from operational cashflow. This risk is being mitigated by reallocating unutilised financed assets to other segments of the group, such as our plant business, to ensure a return on this investment.

Middle East operations M C

The group experienced operational difficulties on the construction of a pipeline in Jordan. This loss contributed to the increase in the group's loss-making ratio which is currently reported at 15% (2010: 13%). The contract generated negative returns and has required interim funding while it progresses to completion. The extent of recoverability of this loss is being assessed.

Lessons learnt on this contract have been implemented into the group's contract lifecycle to ensure that these risks are mitigated in the future.

Positioning for growth M C G

The group strategy includes geographic expansion and growing the contribution from turnkey multi-disciplinary construction contracts. To support this strategy an assessment of the extent to which costs can be incurred, and resources allocated, without an immediate return on this investment is required.

The group incurred certain business development and administrative costs in the Middle East which have not provided a return to date due to the slow rate of contract awards. In addition, it established a presence in two new countries where contracts are currently being tendered.

During the year, management requested the board's independent assessment of its Middle East strategy. Refer to the review from the chairperson of the audit and remuneration committees for more information.

Some establishment costs were also incurred in Africa as the group re-established itself on the continent.

Going forward, the contribution from turnkey multi-disciplinary contracts as well as private public partnerships (PPPs) and independent power projects (IPPs) will provide margin-enhancing returns for the group. However, the lack of traction and delay in contract delivery in South Africa and other emerging countries, both in the rest of Africa and Eastern Europe, have slowed the growth plans of the group's Engineering and Construction (E+C) business and required the Infrastructure Concessions business to manage its resources effectively in preparation for the recovery of development costs as these long term concession contracts are secured.

Finding the optimal balance between short term investment and long term returns therefore needs to be constantly evaluated in the current uncertain markets. The group is confident of the robustness of its long term strategy.

Monitoring credit risk C

The evaluation of the collectability of the group's trade and contract debtors is particularly relevant during these difficult economic times. Pleasingly, from a concentration of risk perspective, the group's top five debtors (based on value of debt) represent 16.2% of total trade and other receivables compared to 31.9% in the prior year.

As expected, the group's credit risk is concentrated in southern Africa and the Middle East, with 56% and 32% of total trade and other receivable balances in those regions (2010: 55% and 32%) respectively. In addition, the group reported R508 million (2010: R484 million) of debts past due but not impaired. This was largely due to the debtor balances on cancelled contracts to be recovered in the Middle East.

Trade receivables which have been impaired increased from R46 million in the prior year to R73 million in the current year. This is due to an increase in provisioning in southern Africa as a result of a potential bad debt on one specific contract in the Steel business. This credit risk is being carefully monitored and preventative controls have been implemented within the business to ensure that similar exposures do not reoccur.

During the year, substantial commercial resolution was achieved in the close out of our cancelled and almost complete contracts in Dubai. We have now concluded and signed a formal settlement agreement with our one client, Meraas, with a payment schedule spanning five years. Payment commenced in June 2011. No amendment to the previously certified value of the debt was required in the year, although a discounting adjustment to record the debt to present date value was necessary. In addition, the group incurred commercial costs to attend to this resolution for which no additional return will be received. We increased engagement with our client, the Dubai Civil Aviation Authority (DCA), in terms of the commercial resolution of legacy contracts, with constructive steps towards finalisation. The group is satisfied with its

REVIEW FROM THE CFO CONTINUED

progress in this regard and with the support provided by our joint venture partner in the United Arab Emirates.

Managing liquidity C

A key focus area included the management of working capital in a year where previously awarded contracts, secured with advance payments and excess billings, drew to completion and new contract awards were slow to come to market. Although cash from operations for the year discloses an unwind of R481,5 million and a net decrease in cash and cash equivalents of R871,0 million, the group is pleased to report that this cash outflow was in line with the group's expectations and forecasts and incurred mainly within the first half of the financial year. Furthermore, the contracts to which the initial upfront payments relate have been profitable. This working capital change therefore reflects a normalised unwind to completion as opposed to an absorption of cash. With a contracting cycle of between two to three years on large infrastructure contracts, the assessment of working capital on a 12-month basis is not representative of the full cash cycle.

An analysis of the working capital unwind for the year confirms the following:

- Contracts to which the initial upfront payments were received have been profitable. This working capital change therefore reflects a normalised unwind
- Working capital was not applied to fund construction contracts, other than the loss-making contract in the Middle East discussed previously
- Construction contracts with bullet payments on completion have not been entered into and the group continues to adopt unchanged contractual payment regimes
- Cash losses incurred within the Construction Materials cluster resulted in working capital absorption
- Cash losses in the Middle East, with respect to "holding costs", resulted in working capital absorption
- The group continues to structure and receive advance payments and excess billing payments
- Payments received in advance are reported at R788,3 million (2010: R1,1 billion) and excess billings at R492,1 million (2010: R1,0 billion)
- Under-certified contract assets reduced from R754,5 million to R506,5 million

Achieving the required return on equity ROE

The group has not met its return on equity target of 20% with the current return before impairments at 11.8% (2010: 21.8%). This is mainly due to losses from the Construction Materials cluster and a weak performance in the Manufacturing cluster. Continued focus on these businesses' performance will be required. In addition, with weaker market conditions expected to extend for longer, an improvement in returns will require a focus on asset optimisation. This will include a critical assessment of capital expenditure.

Below are the details of the capital expenditure incurred for the year and forecast for F2012.

Capital expenditure by cluster R'000

			Nature of 2011 spend %			
Cluster	Budget 2012	Actual 2011	E	R	S	Budget 2011
Investments and Concessions	35 492	6 376	78%	22%	0%	10 089
Manufacturing	25 244	32 020	83%	17%	0%	46 325
Construction Materials	20 674	15 616	0%	100%	0%	47 000
Construction	122 335	96 340	27%	9%	64%	106 163
Total	203 745	150 352	38%	21%	41%	209 577

** E = expansion, R = replacement, S = contract-specific.*

For additional information on the group's performance please go to our website at www.groupfive.co.za and access the group's year-end results presentation.

Corporate governance and compliance

The group considered a number of issues during the year with respect to corporate governance and compliance matters. These included:

Fraud and ethics

An increase in fraud and ethics-related transgressions occurred in the year. These are fully disclosed in the operational overview from the group risk officer on the CD contained within this integrated report. Where these had a bearing on the group's control environment, it was necessary for the group to evaluate the adequacy of its policies and procedures.

Regulatory compliance

The group currently operates in 22 countries. Each has unique finance and taxation regulatory requirements. Adhering to continually changing and developing regulations has become more onerous, especially as the group focuses on a reduction of resources in managing its costs base. With a strategy of geographic expansion, the challenges will become more prevalent and the group will therefore continue to adequately resource its compliance function.

Competition Commission

As discussed within the review from the chairperson and the review from the CEO, the group proactively engaged with the Competition Commission in its investigation into the construction sector. We have been granted conditional leniency by the Commission pending the finalisation of the broader industry investigation. On this basis, these financial results do not include any provision for possible fines or penalties levied by the Commission.

Looking forward

Key focus areas for F2012	Desired results
Re-engineer support structures for effective collaboration of group strategy, including geographic expansion.	Structural and effective alignment to the group's stated strategy.
Ongoing working capital and liquidity management.	Adequate liquidity available in line with the board's stated targets on gearing.
Continued focus on credit control and related policies and procedures.	Reduce the risk of irrecoverable debt.
Stringent capital allocation, management and measurement against return on investment and internal rate of return targets.	Maximise return on equity.
Further strengthen finance-related compliance functions within all our countries of operation.	Full compliance to applicable laws and regulations.
Further develop the group's current assurance model.	Full compliance with the recommendations of King III.

Appreciation

This has been a challenging year. I therefore thank my team members for their unwavering commitment in driving our key strategy of cash preservation and margin protection. A special word of thanks to our CEO for his support and leadership. I also wish to express my appreciation to the board for their guidance and continued interrogation of our strategy and deliverables.

CMF (Cristina) Teixeira
Chief financial officer

5 August 2011

OPERATIONAL REVIEW FROM THE CFO

The next few pages provide supplementary information to the review from the CFO. We outline the key financial performance of the group, as well as other key issues under the responsibility of the group CFO.

Year under review

Financial performance

Overview

Against extremely tough markets conditions, as outlined in the review from the CEO and the operational reviews, the loss attributable to equity shareholders of the group for the year ended 30 June 2011 was R218,1 million (2010: R267,4 million profit). This represents a basic loss per share of 227 cents (2010: earnings per share of 280 cents).

During the year the group processed an impairment of R521,6 million net of tax (2010: R293,1 million net of tax) against the long term carrying value of its property, plant and equipment and goodwill assets relating to its Construction Materials cluster. This represents the most material reconciling item between earnings and headline earnings. The impairment adjustment is discussed on page 91 in more detail. A full reconciliation between earnings and headline earnings is presented in note 7 on page 211 of the annual financial statements.

Headline earnings for the year ended 30 June 2011 was therefore R318,9 million (2010: R585,9 million). This represents headline earnings per share of 332 cents (2010: 614 cents). The fully diluted headline earnings per share for the year ended 30 June 2011 was 315 cents (2010: 561 cents).

The financial statements on pages 184 to 255 set out the financial position, results of operations and cash flows for the group for the financial year ended 30 June 2011. Segmental information as approved by the directors relating to the business of the group is set out on pages 192 to 194.

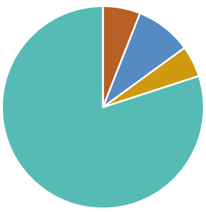
Group revenue decreased by 18.8% from R11,3 billion to R9,2 billion due to a reduction in activity levels within the buildings, housing and civil infrastructure markets, client contract delays and the group's decision not to chase volume at the expense of margin. These conditions, combined with increasing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

The group operating profit margin was 5.4% (2010: 7.7%). This was attributable to the strong results from the Construction cluster and Infrastructure Concessions, which compensated for the poor performances in Construction Materials and Manufacturing.

Further information on each cluster's operating performance for the year can be found from page 141.

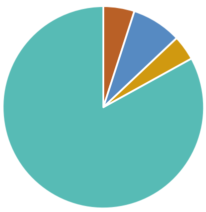
The group's segmental revenue and margin position for the current year and prior financial year are depicted below:

Revenue by cluster 2011



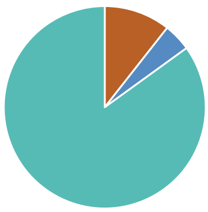
6% Investments and Concessions
9% Manufacturing
5% Construction Materials
80% Construction

Revenue by cluster 2010



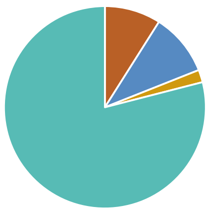
5% Investments and Concessions
8% Manufacturing
4% Construction Materials
83% Construction

Operating profit by cluster 2011



12% Investments and Concessions
5% Manufacturing
(13%) Construction Materials
96% Construction

Operating profit by cluster 2010



9% Investments and Concessions
10% Manufacturing
2% Construction Materials
79% Construction

In the interest of transparent disclosure, the group discloses both its total operating margin, as well as its core operating margin. The core margin is the total operating margin net of any non-core transactions, such as pension fund surpluses and deficits, fair value adjustments, etc. The margin excluding these transactions is therefore deemed to be the pure operational margin. The core margin is also reflected within the annual financial statements with the group's segmental analysis as the executive committee assesses performance of the segments and clusters on this basis.

Operating margin by cluster

Operating margin by cluster %	**2011 – total operating profit**	2010 – total operating profit	**2011 – core operating profit**	2010 – core operating profit
Investments and Concessions	**10.9%**	12.7%	**11.3%**	12.8%
Manufacturing	**3.0%**	10.0%	**3.0%**	9.5%
Construction Materials	**(15.7%)**	4.1%	**(15.7%)**	3.6%
Construction	**6.5%**	7.1%	**6.5%**	6.9%
Total	**5.4%**	7.7%	**5.4%**	7.3%

Fair value adjustments

Investment property, investment in service concessions and investment in property developments are defined as financial assets held at fair value, with fair value adjustments through profit and loss designated on initial recognition.

Investment in property developments

On 1 November 2008 the group acquired a 15% interest in the Waterfall Development Company (WDC) for R120 million. Through its 22% investment in Atterbury Investment Holdings, WDC holds the development rights for approximately 1,4 million square metres of a new, mainly commercial development to be built between Johannesburg and Midrand (the Waterfall Farm). During the current year, the group disposed of its interest in WDC, which realised a fair value upward adjustment of R13,3 million.

Investment properties

The group's income-producing investment property was independently valued as at 30 June 2011. In comparing the carrying value to the independent valuation, a fair value downward adjustment of R8,4 million (2010: Rnil) was recorded due to movements in market-related capitalisation rates.

During the year, the group sold its investment in the 114 West contract in Sandton, realising a fair value upward adjustment of R10,8 million (2011: Rnil).

Investment in service concessions

The carrying values of the equity investments in service concessions were assessed. This resulted in upward fair value adjustments of R19,6 million on M6 (Hungary) and R13,5 million on the A1 Phase I and II (Poland) totalling R33,1 million. Refer to page 146 for more details.

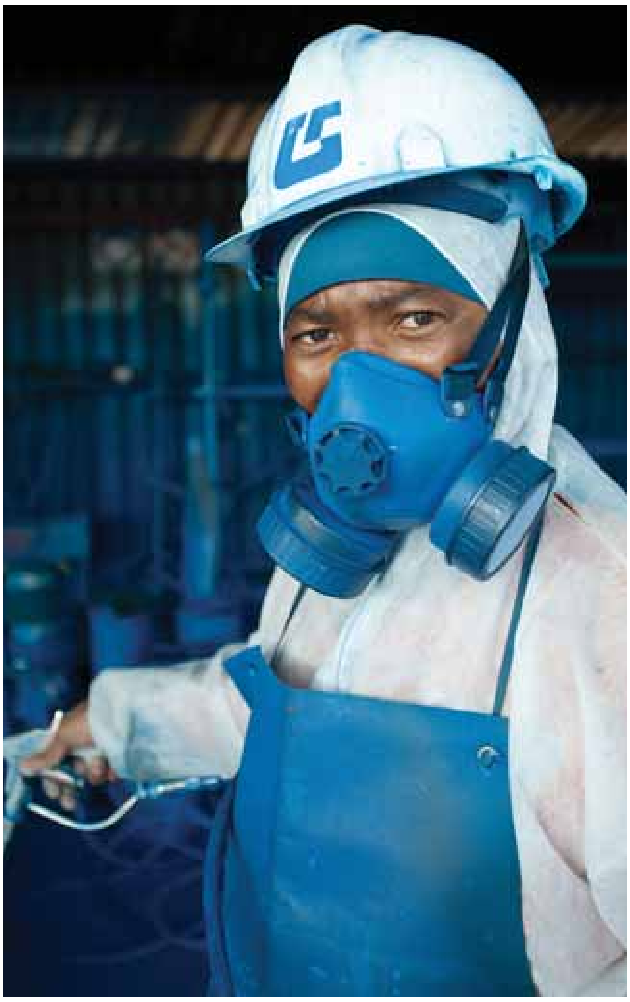
Pension accounting

An amount of R2,0 million pension fund deficit (2010: R55,2 million surplus) was recorded against income in F2011 due to the actuarial valuation performed on the group's defined benefit pension fund as at March 2011. The pension fund is a closed fund. In terms of the fund's rule amendment, additional surpluses and deficits arising after the legally required surplus valuation date are for the account of the group. The group's surplus apportionment exercise and rule amendment were approved by the Financial Services Board (FSB). During the prior year, the group completed the outsourcing of its pensioners from the pension fund. The fund therefore exists with only active members. The fund's overall investment return for the year ended 31 March 2010 was approximately 23% per annum. This was significantly higher than the increase in liabilities for the year, which resulted in a sizeable surplus during the prior year.

Impairment of non-current assets – property, plant and equipment, including intangible mining assets and undeveloped mining resources

Accounting practice requires that the carrying value of non-current assets are reviewed for impairment when there are indicators of impairment. The weakening market conditions applicable to the Construction Materials cluster resulted in detailed impairment tests being conducted.

A lack of clarity on the timing for recovery of construction materials markets, including no visible recovery in the private residential and building sector and a delay in contract roll out and awards in the public sector, required management to apply a prudent consideration to the carrying value of these assets and to process an impairment of R325,6 million in the prior year and a further R550,5 million in the current financial year. Impairment tests performed at year end indicated that no further impairment adjustments are required.



The R550,5 million impairment adjustment includes a R24,9 million goodwill write off relating to the acquisition of the group's cement extender business in the 2008 financial year.

Finance income –net

In line with expectations, net finance income of R18,4 million was recorded for the year compared to net finance income of R27,9 million in the prior year. This consisted of a positive impact from stable interest rates and a negative impact from the reduction in cash and cash equivalents. This reduction was mainly realised in the first half of the financial year.

Taxation

The effective tax rate of 33%, before the Construction Materials impairment adjustment, was higher than the South African statutory tax rate of 28%. This was mainly due to Secondary Tax on Companies paid, liabilities in jurisdictions with higher taxation rates and a conservative approach adopted in terms of the raising of deferred taxation assets.

Discontinued operations

During the year, an amount of R17,2 million was charged to the income statement mainly as a result of a prudent treatment on the amount due from contract claims and legal costs incurred on a terminated Indian toll road contract. This balance, which was previously reflected under discontinued operations, continues to proceed to arbitration.

OPERATIONAL REVIEW FROM THE CFO CONTINUED

The group had to decide whether it was going to increase order in-take at potentially low margin and cash negative returns to cover unutilised assets or whether it would reduce the asset base and focus on margin and cash retention. The group has clearly communicated its strategy of choosing to focus on margins and cash while managing the risk of losing key capacity.

Cash flow

Operating activities

The group first applies its cash generated from operations to repay debt and taxation commitments, followed by a return to shareholders in the form of dividends. Any remaining cash is used to fund capital investment programmes. This could be debt funded, as the funding strategy is to match funding to asset type.

During the year, we settled an amount of R254,7 million in taxes. In addition, dividends to the value of R121,0 million were paid. The group generated R756,3 million cash from operations before working capital changes. However, although in line with expectations, working capital absorption of R1,2 billion resulted in a net cash outflow of R871,0 million in the period. The material portion of R706,3 million occurred in the first half of the financial year. As expected and outlined to the market, the finalisation of the large local infrastructure contracts saw the unwinding of advance payments and the settlement of creditor final accounts. Pleasingly, working capital outflows were as a result of the settlement of trade and other payables only. It continued to improve in all other areas of trade and other receivables and management of inventory levels.

At year end, the group reported R788,3 million in advance payments on hand (2010: R1,1 billion). In addition, an amount of R266 million cash was held by joint venture partners on behalf of the group. This is therefore not reflected as cash, but as amounts owing by joint venture partners. This balance can be converted to cash. Work under-certified was collected as the balance decreased from R754,5 million at 30 June 2010 to R506,5 million. Refer to the review from the CFO for details on the changes in working capital structure.

Financing activities

The cash effects of financing activities were due to expansion, as explained in the debt and gearing section.

Debt and gearing

We are very pleased to report a fourth year of 0% net gearing due to favourable bank and cash balances on hand. 33% net gearing remains the group's maximum target, as mandated by the board. Our short term and long term liabilities consist of an unsecured domestic bond, finance leases, property funding and limited bank overdrafts. The debt is mainly variable, linked to JIBAR or prime interest rates. The debt profile matches the assets being funded. Our operating performance reduced the group's dependency on short term borrowing facilities.

As reported previously, in F2007 the group issued two senior unsecured bonds totalling R850 million which were issued under an approved R1 billion listed debt management programme. The first instalment was repayable in February 2010, with the second due in February 2012. Management has considered the bullet repayments in the forward looking three-year cash and profit forecasts. In the prior year, the group settled the GFC 1 bond dated 27 February 2010 for R300 million in cash. Refinancing of these bonds in future may be considered where opportunities for investment are identified.

During the year, our capital investment programmes were reviewed and budgets reduced in light of weak market conditions. Any increase in debt is as a result of a requirement in capital equipment to accommodate specific requirements on recently awarded construction and contract crushing contracts or replacement of capital equipment required.

The Global Credit Rating agency (GCR) awarded the group a long term credit rating of A and a short term credit rating of A1.

Investing activities

All existing capital investment projects are required to provide a targeted return in excess of current weighted average cost of capital (WACC), which was 12.80% during the year. This rate of return is applied to all existing projects. New projects are assessed on WACC based on the cost of new capital. The central treasury funds all capital projects, which are executed by wholly owned subsidiaries. The central treasury funding requirements are raised from local debt markets and take into account the group's self-imposed net gearing ratio of a maximum of 33%.

Acquisitions and disposals

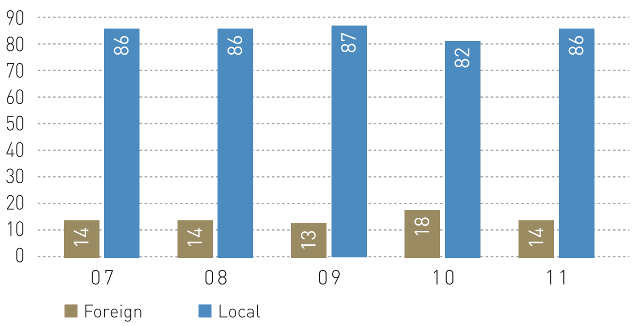
There were no business combinations during the current financial year.

Issued stated capital and share trading

Share trading

Our JSE-listed share trading activity (share code: GRF) decreased during the year, with levels returning to those of F2006. 52 million shares (2010: 79 million) traded in the year, representing a value traded of approximately R1,7 billion (2010: R2,9 billion) at an average price of R33 per share (2010: R36). Our market capitalisation at year end was R3,6 billion (2010: R4,2 billion). The percentage of shares held by South African residents was 86%, an increase from the 82% in the prior year.

Foreign versus local shareholding (%)



Dividends

The group's adopted dividend policy is approximately four times basic earnings per share dividend cover. This policy is subject to review on a semi-annual basis, prior to dividend declaration, as distributions are influenced by business growth, acquisition activity or movements in earnings as a result of fair value accounting adjustments.

In recognition of the non-cash nature of the Construction Materials impairment adjustment, the board approved a dividend based on a cover of four times earnings per share of R2,89 before recording impairment adjustments and pension fund deficits and non-cash fair value adjustments. A final dividend of 20 cents per share (2010: 74 cents) has been declared. This brings the total dividend for the year to 72 cents per share (2010: 137 cents).

Future reduction in issued stated capital

In prior years, shareholders were informed that one of the group's broad-based black economic empowerment (BBBEE) shareholders iLima had not fulfilled certain conditions and/or breached certain terms to which the original ownership transaction was subject to. As a consequence, the iLima portion of the transaction will unwind. This will result in the return of the group's shares held by iLima. The issued stated capital of the group will reduce once the shares are returned and cancelled.

The group's direct and indirect exposure to iLima remains R172 million. The exposure will ultimately be recouped against the value of the returned shares. There was therefore no financial effect on the current and prior year's earnings of the group.

There was also no material effect on the basic weighted average number of shares in issue. However, the fully diluted weighted average number of shares in issue will reduce post year end on return of the shares as no future dilution will be incurred relating to this transaction. At year end, the fully diluted number of shares included 1,9 million dilution shares relating to the iLima Consortium.

Effect of significant changes in accounting policies

The group completed a technical review of all statements and interpretations which became effective for the period under review. The full list, as well as their effect on the reported results, is discussed on pages 206 to 208. The accounting effect of the Discussion Paper on Revenue Recognition, as discussed in the prior period, will have a significant impact in future reporting periods.

Conclusion

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

EXECUTIVE COMMITTEE

Our executive team members have been working together for a number of years, with most members having been with the group for over five years.

For CVs of the executive committee members, refer to pages 33 to 34 of the CD contained within this integrated report.

SED

MJ (Junaid) Allie (41)
Group human resources director

BPharm

Junaid has made a material difference in terms of driving a human resources and transformation strategy in the group. He has significantly improved internal communications, with employee feedback and retention improving each year. He has particular experience with managing change within organisations, which he has implemented at Group Five, focusing particularly on instilling a performance management culture and driving transformation initiatives. This has resulted in the group achieving market leader status in terms of its Level 2 BBBEE rating.

P (Paul) le Sueur (54)
Building and Housing and Middle East

Bsc QS, MAQS, RQS, RICS, MSc Building Management

Paul has significant experience in the South African private and public real estate sector, which brings valuable build and operational knowledge on pricing, managing and delivering on contracts. His knowledge includes a solid understanding of operating in the real estate sector in the rest of Africa. He has recently supported the restructuring of the group's Middle East and Coastal businesses. Paul has sound business development skills and the ability to identify market changes promptly and to proactively adapt through internal restructuring, refocusing of strategy and stakeholder engagement.

AJ (Andrew) McJannet (48)
Civil Engineering (Local and Africa)

BSc Eng (Civil), BA (PPE), MA, Pr Eng, MSAICE

Andrew has over 20 years of technical and operational expertise in civil construction, with an ingrained ability to deliver highly specialised and complex contracts. He has a keen understanding of integrating businesses, which he has successfully done in the amalgamation of the group's heavy civils, roads and earthworks and over-border civil engineering operations. Andrew has led the delivery of many of the group's iconic 2010-related contracts in the last few years.

RC

GD (Guy) Mottram (45)
Group risk officer

BCom, LLB

Guy has solid experience of commercial matters. This, together with his formal legal training, ensures that opportunities and risks are approached with a business sense while being rooted in an understanding of legal requirements. Guy has successfully driven the development of the group's risk management processes over the last few years and, as a member of the Engineering and Construction Risk Institute, he is able to consider leading global trends for application in the group.

ECJ (Eric) Vemer (46)
Investments and Concessions

BSc Eng (Civil) (Hons), MBA

Eric has very strong skills in financial engineering and structuring and corporate finance. His combination of solid operational and financial experience brings a unique value offering to the group. This is particularly relevant in his business area of Investments and Concessions which allows the group to achieve a strategy of long term annuity income on equity returns. Eric is a valued member of the group's strategic development team.

JA (John) Wallace (53)
Manufacturing and Construction Materials

BCom, Hons Programme in Advanced Marketing and Executive Management Programme

John has an extremely strong strategic ability, which has been invaluable to the group. He is able to identify opportunities in markets and establish businesses which can capitalise on these opportunities and enhance value for the group. He has a particular ability to effect change and repair problem entities. Since assuming leadership responsibility for Construction Materials two years ago, he has focused on implementing a strategy to improve performance in this cluster and to optimise its role within the group against extremely challenging market conditions. John is an active member of the group's strategic development team.

WI (Willie) Zeelie (49)
Engineering: Engineering and Construction

Higher National Diploma Electrical Engineering, Pr Tech Eng, MSAIEE

Willie brings years of experience in multi-disciplinary engineering and infrastructure contracts, with a robust marketing and business development ability. He has an established track record in the power and energy sectors and has successfully led the team who has delivered numerous power plant contracts in both South Africa and the rest of Africa. Willie has been instrumental in developing the group's technical abilities in oil and gas and is leading the establishment of the E+C business.

RC / Risk committee
SED / SED committee

Cluster of responsibility

- Corporate
- Investments and Concessions
- Manufacturing
- Construction Materials
- Construction

MANAGEMENT COMMITTEE

The management committee was further strengthened during the year, with a number of new members joining.

For CVs of the management committee members, refer to pages 34 to 37 of the CD contained within this integrated report.

C (Celia) Becker (38)
Group country risk director

BCom Acc (Hons), CA(SA), H Dip International Tax, MCom Taxation

Celia is very experienced in the areas of country and contract risk, as well as transaction structuring and country compliance. As the leader of the group's corporate green initiatives, she has added huge value by driving new developments, including green construction and the group's carbon footprint reporting.

RM (Richard) du Toit (48)
Human resources director: operations

BCom, Development Programme in Labour Relations, Advance Labour Law Programme

Richard provides HR support to business units and is especially strong in labour relations and remuneration structuring. He is also solely responsible for the implementation and running of the group's successful enterprise development programme.

SED

FH (Frank) Enslin (55)
Managing director: Housing

BSc (Building Science), PCM, FCIOB

Frank has in-depth experience of the housing market, particularly in the mining sector. More recently, he led initiatives in the public sector with "breaking new ground" and affordable housing developments.

AS (Andrew) Fairfax (36)
Group commercial manager

BSc Civil Engineering (Hons), Henley Certificate in Management

Andrew has a valuable combination of civil engineering skills and commercial experience. This allows him to critically assess commercial risks and opportunities within the business. In recent years he has demonstrated the ability to practically address complex commercial matters. He has an ability to implement effective controls.

ME (Malcolm) Farrell (47)
Group supply chain director

BCom, MBA

Malcolm has been instrumental in establishing group-wide supply chain initiatives and strategies, as well as key supply chain structuring for large infrastructure contracts.

G (Greg) Heale (58)
Business development director

BSc Eng (Mech), Cert (Mines and Works), MAP, ASQC (CSIR)

Greg has played a key role in building the group's marketing and business development activities for large contracts. He is currently leading business development for the group's sector focus in the newly-formed business unit of Engineering and Construction (E+C). He has a wide network and key understanding of client needs.

JW (Jon) Hillary (38)
Managing director: Intertoll Group

BCompt (Hons), CA(SA), Advanced Management Programme (Harvard 2010)

Jon has a valuable combination of financial and operational skills. He has a good understanding of the concessions and property businesses, which has enabled him to effectively structure various valuable property transactions for the group. Jon will bring strong skills to his new position as MD of the Intertoll group business covering Europe and Africa.

NM (Mark) Humphreys (44)
Managing director: Engineering (Projects)

Higher National Diploma Quantity Surveying

Mark has significant experience in African mining, with a deep understanding of client needs and an ability to transform that into value-adding solutions for clients. Mark has solid operational experience matched with a demand for quality, timeous delivery and client satisfaction.

SED / SED committee

Cluster of responsibility

- Corporate
- Investments and Concessions
- Manufacturing
- Construction Materials
- Construction

MANAGEMENT COMMITTEE CONTINUED

LMM (Loren) Jackson (41)
Group legal and compliance director

BA, LLB

Loren has been the key role player in building the group's legal and compliance function. Loren also offers very strong litigation skills and significant knowledge of construction law.

CJ (Craig) Jessop (44)
Managing director: Coastal

BSc Quantity Surveying, RQS

Craig brings solid strategic skills to the group, with a deep knowledge of his markets and clients and an ability to implement effective operational controls. He has strong leadership abilities and people skills, which has allowed him to build a very successful Coastal business.

KR (Kushil) Maharaj (41)
Managing director: Property Developments

BSc Civil Engineering, MBA

Kushil has strong property and affordable housing experience, combined with a good understanding of funding models for developments. These skills will be invaluable to the group in its Property Developments strategy of ensuring solid returns on property investments.

SED

IM (Isabella) Makuta (46)
Group communications and corporate affairs director

BA, Post Grad HR, MBA

Isabella brings together the various corporate communications aspects under her control. She has a strong understanding of public sector requirements and a deep commitment to socio-economic development initiatives.

MM (Mark) Mencel (48)
Regional general manager:
Middle East

BSc Civil Engineering, MSc Construction Management

Mark has a good understanding of the Middle East markets, with operational and commercial experience in the region with regard to turnkey contracts. He has the ability to successfully implement operational and quality systems.

SMO (Siegfried) Milbert (50)
Managing director:
Construction Materials

BCom Law, BAcc, CA(SA)

Siegfried has many years of experience in operational process re-engineering and improvement. This has been particularly valuable to the various business units in which he has operated, especially more recently in the restructuring within Construction Materials.

SED

ST (Themba) Mosai (35)
Managing director: Intertoll Africa

MSc Control Engineering, BSc Electrical Engineering (Wits University)

Themba has significant experience in the South African toll road operating concessions market. He has successfully grown the Intertoll Africa business and has positioned it for further growth in the region.

JAE (Jurgen) Stragier (40)
Managing director: Everite & ABT

BSc Aeronautical Engineering

Jurgen has established business development skills with an ability to identify new opportunities and deliver changes to the business to capture those opportunities. He has been instrumental in establishing the advanced building technologies (ABT) business.

SED / SED committee

Cluster of responsibility

- Corporate
- Investments and Concessions
- Manufacturing
- Construction Materials
- Construction

MANAGEMENT COMMITTEE CONTINUED

I (Izak) van der Watt (38)
Group SHEQ manager

BMS 200 Management Diploma

Izak has been instrumental in the implementation of sound SHEQ systems and in developing programmes to continue improving safety within the organisation. Under his guidance the group has implemented a total quality management system and has substantially increased its ISO and OSHAS accreditations. He has also been responsible for improved environmental management systems in the group.

MP (Michael) van Rooyen (54)
Managing director: Building

BSc, Building Management PCM, MCIOB

Michael is an experienced buildings contractor with a significant track record in the South African private and public real estate markets, as well as a sound knowledge of real estate developments in the rest of Africa.

DN (Deon) van Tonder (33)
Group finance: operations director

BCom, BCom (Hons Accounting), CA(SA), BCom (Hons Investment Management)

Deon has strong financial construction experience backed by a thorough understanding of best practice processes. He adds significant value in re-engineering projects due to his ability to support operational change needs with financial knowledge. He has been particularly instrumental at Construction Materials where he has led the financial re-engineering of the cluster.

N (Nonqaba) Katamzi (42)
Company secretary

BA Law, LLB, CIBM

Nonqaba has solid experience in the company secretarial field, with particular knowledge of governance issues and JSE compliance. This allows her to effectively advise the board on all legislative requirements.

SED / SED committee

Cluster of responsibility

- Corporate
- Investments and Concessions
- Manufacturing
- Construction Materials
- Construction

REVIEW FROM THE GROUP RISK OFFICER

The group further refined its risk management by enhancing its risk-bearing capacity model.

In current markets it is crucial to price contracts competitively – but profitably.

Guy Mottram

Strategy | Risk | Corporate governance | Legal regulatory & compliance | People | Planet | Performance

The risk officer's function within the group encompasses the disciplines of safety, health, risk, environment, quality, commercial, legal, regulatory compliance and secretarial.

Introduction

During the year, the group focused on further refining its established approach to risk management by enhancing our risk-bearing capacity model. This will ensure an advanced methodology with which to identify risks, rate and measure them and be able to make more informed decisions on the group's capacity to take on and manage risk.

As part of this process, key indicators were identified within four core focus areas. These indicators were weighted according to their agreed contribution to the group's risk-bearing capacity. Each indicator has a tolerance level which guides the group's risk appetite at any given time. These indicators are consistently monitored to assess the status of the group against assessed tolerances.

To identify the group's risk-bearing capacity, four core focus areas which govern the group's performance were identified. These are financial, commercial, management and operational.

Financial

Financial capabilities encompass the maximum amount of risk the group can bear before it becomes financially unable to recover to "business as usual".

An integral part of the group's ability to grow sustainably rests on its ability to obtain guarantee facilities required for its construction contracts. Free cash flow, liquidity and the group's credit rating are also central to operations.

Commercial

Commercial capabilities entail the key qualities required by Group Five to ensure it can conduct business. Due to the nature of the current construction market, it is crucial to price contracts competitively – but profitably – and on acceptable commercial terms to ensure quality of delivery.

Management

Management capabilities comprise the most essential management skills which are required to ensure effective operations.

Group Five's core management capabilities are situated in the depth of leadership of its businesses, where critical technical, commercial and operational knowledge resides, its supporting technical experts who are responsible for quality deliverables and the group executive committee where critical corporate memory, financial knowledge and commercial capabilities resides.

A detailed report addressing the operational issues in the risk management portfolio is contained on pages 1 to 22 on the CD enclosed within this integrated report. A table summarising the key delivery areas around risk can be found on pages 104 to 113 of this integrated report.

REVIEW FROM THE GROUP RISK OFFICER CONTINUED

Although we anticipated poor conditions in our Construction Materials business and continued difficulty in the Middle East, the extent of the materials downturn was underestimated and the impact of holding costs in the Middle East was larger than anticipated.

Operational

Operational capabilities relate to the core processes and procedures which need to be in place to ensure Group Five can function and continue with normal business activities.

The adherence to discipline and processes is a prerequisite for Group Five to deliver contracts timeously. Risks are therefore managed as critical business processes and mitigated optimally.

Material issues during the year and how these were managed

The group had to manage several material risks during the year. Fortunately, none of these were unanticipated as our established risk management system had identified these threats. However, although we anticipated poor conditions in our Construction Materials business and continued difficulty in the Middle East, the extent of the materials downturn was underestimated and the impact of holding costs in the Middle East was larger than anticipated.

The continued recessionary pressures and the uncertainty of the timing around an eventual market recovery were obviously key focus areas for management. As this is covered in the review from the CEO and in the review from the chairperson of the risk committee, I will not address it here, but will focus on the company-specific material issues identified.

Construction Materials

The Construction Materials cluster has operated under very difficult market conditions in which both volumes and prices have declined materially. This cluster also experienced a number of operational inefficiencies. The market conditions, combined with internal issues, had a severe impact on results, which included a large impairment of the cluster's asset value. Against this, management acted to rightsize the cluster both in terms of people and mothballing certain underperforming and uneconomical plants and quarries.

The extent of the measures required to reduce losses and marginalise cash outflows within the business were extremely invasive and difficult on employees, which in itself became a risk to manage. Another area which required significant management attention was compliance. South Africa is a highly regulated environment and the group has spent an extensive amount of time and resources to ensure that we adhere to the various regulations that govern the cluster, including stringent mining, environmental, safety and health regulations. We have appointed a specialist team to ensure full compliance at all sites.

Middle East

As communicated previously to stakeholders, we have contract resolution risks to resolve in Dubai following the market collapse. There are two main exposures from contract terminations by our clients Meraas and the Department of Civil Aviation (DCA). We have now concluded and signed a formal settlement agreement with Meraas with a payment schedule spanning five years commencing in June 2011. No amendment to the previously certified value of the debt was required in the year although a discounting adjustment to record the debt in present date value was done. We increased engagement with DCA in terms of the commercial resolution of legacy contracts, with constructive steps towards finalisation. The group is satisfied with its progress in this regard.

Furthermore, our strategy of accessing new markets in the region to replenish order books has been done with a strong awareness of the recent political uncertainties of some territories in the broader Middle East and North Africa (MENA) region. We have approached new territories with due care and consideration. Although we have had some successes in terms of new contracts, this has been at a slower than expected pace and hence in the short term, the group has had to support an overhead in the region to attend to the close out of legacy contracts and to bid for new work without an immediate return on this investment.

Competition Commission

About two years ago management made a decision to proactively cooperate with the Competition Commission in its anticipated investigation into the construction sector. This decision was made in line with the group's zero tolerance to unethical behaviour, its culture of transparency and to proactively manage the potential impact of fines and penalties which could be levied against offending companies. As a consequence, we approached the Commission with a view to mitigate the financial and reputational risk by utilising its leniency policy on companies willing to first report non-compliance. We have spent the last two years cooperating with the Commission in submitting a record of our findings. We have recently been granted conditional leniency pending the finalisation of the broader industry investigation. We are confident that our decision to proactively manage this risk will have the best possible outcome for the group.

Safety

Despite having maintained our lost time injury rates and other health and safety statistics at low levels, we unfortunately had six fatalities this financial year. The losses of life have been exclusively within our sub-contractor base. Although the sub-contractor employees are not employed by Group Five, they operate within our sphere of responsibility. Therefore, to reverse this trend, we are implementing a more vigorous sub-contractor selection and management programme which will assist our sub-contractors to align to our values and standards to ensure the protection of people.

Refer to page 2 on the CD contained within this integrated report for further information.

Looking forward

Key focus areas for F2012	Desired results
Risk-bearing capacity (RBC) model.	The board and executive team will focus on further refining the RBC model to fully entrench the management of the business against the group's tolerance levels and its appetite for risk
Sub-contractor management.	To ensure we manage this stakeholder base more effectively, we will revisit the terms and conditions on which we interact with our sub-contractors. We will also ensure the alignment and monitoring of their health and safety standards on our sites
International expansion.	As we expand our international footprint, it is critical that we maintain our focus on regulatory compliance within these new territories
Middle East and North Africa.	Despite having made progress in minimising our recovery of debt exposure in Dubai, there is still considerable commercial closure required in the next financial year
Competition Commission.	Having secured conditional leniency, the group needs to convert this into a confirmed final leniency position to eliminate exposure to penalty and fines

Appreciation

I thank the risk, legal and regulatory compliance, commercial and safety, health, environment and quality (SHEQ) teams, as well as our company secretary, for the tireless effort this year in trying times and with limited resources. To the board, thank you for your continued support and vision in our quest to establish best practice in the broader risk management arena.

GD (Guy) Mottram
Group risk officer

5 August 2011

OPERATIONAL OVERVIEW FROM THE GROUP RISK OFFICER

The next few pages provide supplementary information to the review from the group risk officer. We outline how we delivered against our objectives in terms of the areas under the group risk officer's responsibility. These include safety, health, risk, environment, quality, commercial, legal and regulatory compliance and company secretarial.

Detailed information around the operational performance within these areas can be found from pages 1 to 40 on the CD contained within this integrated report.

Introduction

The group has a total quality management system in place which underpins every aspect of its operations and reinforces the centrality of sustainability to the business. We aim to certify all business units in accordance with relevant standards of the International Standards Organisation (ISO), as well as other leading standards.

The relevant standards for each category are:

OHSAS 18001	ISO 31000	ISO 14001	ISO 9001
Safety and health	Risk management	Environment	Quality (Business management system)

During the year, the group combined the safety, health and environment functions with quality to ensure an integrated safety, health, environment and quality (SHEQ) function in line with leading global practice.

Safety

The focus remained on living our "zero harm" approach to safety. During the year, our focus ensured that the number of lost time injuries and non lost time injuries declined. Although we achieved this, we sadly and unacceptably had an increase in fatalities, with six fatalities within our sub-contractor base.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Maintain our safety system.	Reduce DIFR to zero and prevent fatalities.	The group's internal and sub-contractor DIFR worsened and six people died within our sub-contractor base.
Implement a behaviour-based safety system.	Visible-felt leadership programme rolled out in all business units during F2011.	This was formally implemented within Civil Engineering to test the effectiveness of the software system before it is implemented in the rest of the group.
Roll out sub-contractor audits in terms of compliance to Group Five standards to further minimise the potential risk in terms of sub-contractors.	All sub-contractors to be exposed to a minimum requirement audit before commencing work with Group Five.	Although the programme was approved, the roll out will take longer than anticipated due to the diverse requirements and nature of the business units. The canvassing of business units is currently taking place to ensure roll out across the group, with full implementation set for early in F2012. This is an urgent priority for the group.
Improve reporting on potential incidents ("near miss incidents").	Improve by a further 20%.	Achieved a 25% improvement in reporting of potential incidents.
Ensure the closing out of at least 85% of matters relating to high-level incidents before due dates.	Maintain at 85%.	100% closed out before due dates.
Continued focus on certification.	All business units to be OHSAS 18001:2007 certified in the coming year.	All business units, with the exception of the Construction Materials cluster due to restructuring, were OHSAS 18001:2007 certified.
Hazard identification and risk assessment reviews to take place across the group, with a focus on catastrophic risk management and implementation of business continuity plans for all business units.	Successful roll out during F2011.	Rolled out in the group.
Increased focus on managing safety from the "top down", with dedicated line manager time on site and management site visits to create a culture of senior management commitment to safety.	Increased presence of senior management on site, with programme being visibly led by management.	Management actively participate in weekly site visits.
Weekly site meetings to determine and remove root causes of serious incidents. Follow up and close out of required actions to improve the prevention of repeat incidents.	Further decline in repeat incidents.	28% decline in incidents.

Looking forward

Key focus areas for F2012	Desired results
Ensure zero harm.	Although a steep target from six fatalities, we are focused on eradicating fatalities as zero harm is the only acceptable goal
Maintain certification on OHSAS 18001:2007.	No major findings in audits
Reduce the combined disabling injury frequency rate (DIFR).	A DIFR of >0.30 from the current combined ratio of 0.54
Compliance against the standard SHEQ audit standards schedule.	Full compliance

OPERATIONAL OVERVIEW FROM THE GROUP RISK OFFICER CONTINUED

Health

Due to legislative changes in the medical and economic climate in South Africa, the control of costs for occupational health programmes and adherence to regulations and laws continued to be an area which required focus. During the year, we also implemented and tracked uniform standards in medical assessments and evaluated the accreditation of service providers to ensure continuity and quality across the group.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
The enhancement of the group's occupational health programme. This will include incorporation of health risk assessments, hygiene measurements, risk rating of all job categories and medical surveillance.	Effective monitoring that allows trend analysis to direct focus areas for the next financial year.	Risk ratings were calculated and applied to all job profiles. High- and medium-risk category individuals were identified and sent for medical assessments in F2009 and F2010, with medicals for low-risk employees rolled out in F2011. An electronic process for booking medicals and capturing results was launched in March 2011, which will ensure improved efficiency and monitoring.
Data on executive medicals supporting disease profiling will be added to the group's central human resources system.	Proactively manage executive health.	This is handled by our HR team. Refer to page 41 of the CD contained within this integrated report.
Although we noted a decreasing trend in absenteeism, we will continue to focus on managing this risk.	As the main cause of absences were due to upper respiratory infections, we have implemented an annual flu vaccination campaign to further decrease absences.	Although we did not roll out this programme through the whole group, a number of business units adopted this policy. In the coming year, a formal group policy will be implemented.

Looking forward

Key focus areas for F2012	Desired results
Intensify and broaden the implementation of proactive health management programmes for the current and most relevant diseases.	Early detection, referral and management
Enhance over-border health management programme to protect employees and to prevent the loss of productivity or the need for treatment of debilitating illnesses contracted during over-border work.	Comprehensive health advice, screening and management to prepare employees for over-border travel and their subsequent return to South Africa
Enhance the group's central occupational health data programme to flag health changes during pre-employment and annual medical assessments.	Until the group's medical system is updated, an additional occupational health nurse or medical practitioner will be appointed to manage central occupational health data for early identification, referral and management of changes in health status
Implement a more rigorous process to assess, report and track prevalence and incidence of community health hazards, such as HIV/Aids, tuberculosis and malaria to prevent the spread to our employees.	Early detection, referral and management in South Africa and over-border

Risk management

The need for effective risk management within the group became even more prevalent given the tough economic times. As the group's risk processes and systems are evaluated on an annual basis, during the year they were further enhanced with the development of a risk tolerance framework.

Delivery

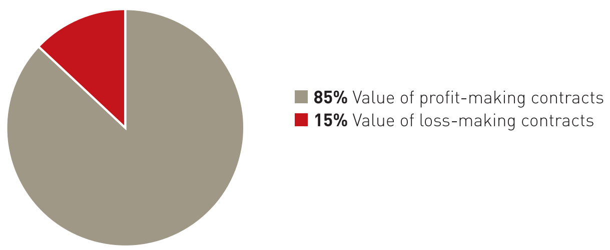
Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Enhanced version of the group's risk and opportunity management system (STARS).	Entrenchment of the system within each business unit and on construction contracts.	Achieved.
Risk reporting capabilities within the system.	Implement reporting tools within the system to enhance risk reporting.	Addressed, although this involves continuous development throughout the group.
Automation of the "lessons learnt" system.	Implement lessons learnt module within the STARS system.	Lesson learnt module was automated and is in the process of being implemented. Due to be completed by October 2011.
Ethics risk management.	Conduct investigations into allegations of unethical behaviour received through the Tip-offs Anonymous line or directly to the risk department.	Investigations were successfully conducted. This will be a continuous process.

Contract profit/loss-maker ratio

A key measure the group monitors on its Construction contracts is the contract profit/loss-maker ratio. It is a ratio of loss-making versus profit-making active contracts with a profit or loss greater than R100 000 for the year. Having achieved progressive improvements in performance over the last few years, the group's loss-maker ratio for the year under review was affected by the costs incurred in the rectification of one pipeline contract in Jordan in the Middle East. Corrective action was successful. As outlined on page 52 this ratio was independently assured by PricewaterhouseCoopers Inc.

Profit- versus loss-making contracts



Looking forward

Key focus areas for F2012	Desired results
Implement risk tolerance levels for the group based on the board's risk appetite and the group's risk-bearing capacity.	Key risk indicators and dashboards to monitor actual risks against tolerance levels set by the board
Risk management and internal audit integration.	Further integrate audit findings within the risk management process
Ethics risk management.	Report on ethics in line with the social and ethics requirements as per the new Companies Act. Continue to drive zero tolerance to a lack of ethical behaviour
Risk management processes for non-construction business units.	Contract risk lifecycles in place for non-construction business units
Enhanced commercial and legal acumen and risk mitigation to ensure effective risk management around engineer, procure and construct (EPC) and design-build contracting models.	A suite of risk assessment and contracting standards through which the group will be able to operate within acceptable risks and rewards

OPERATIONAL OVERVIEW FROM THE GROUP RISK OFFICER CONTINUED

Environment

The group further refined its environmental risk identification and assessment programmes. Actual and potential risks were and continue to be assessed and managed. Legal compliance also continued to be a focus area. The group's internal environmental committee has been actively pursuing specific opportunities to reduce the group's direct carbon footprint.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Continue to focus on certification.	Ensure that all business units achieve ISO 14001:2004 certification in F2011.	77% of business units are certified.
Implement a reduction in diesel project.	Around 3% reduction in diesel consumption, as this is the largest overall carbon footprint contributor in the group.	A voluntary research project was conducted with a fuel enhancer on certain of Group Five's equipment and fleet. An average fuel consumption improvement of 4% was seen in initial testing. The product is set to be rolled out in the group in the new year following approval by exco.
Apply for carbon credit certification.	Develop and implement carbon emission reduction targets.	Individual projects that may qualify for carbon credits have been investigated. This includes a project for a fuel switch from coal to biomass in the Everite boilers with an eligibility study finalised. We are currently reviewing the availability of adequate biomass. The switch can only be made once this has been confirmed.
Actively pursue opportunities in the renewable energy sector in southern Africa.	Register Clean Development Mechanisms (CDM) projects in South Africa, which will result in carbon credits.	Projects are still in the development phase, but all Clean Development Mechanisms (CDM) requirements are in place.
Manage regulatory risks and opportunities that include potential carbon taxes on diesel and electricity in certain regions where we operate.	Detailed plans to minimise the risk to Group Five.	The group constantly improves its systems to measure its carbon footprint. This enables us to identify which areas will be taxable if the tax is implemented. In the meantime, a number of initiatives are being driven to further reduce the carbon footprint.
Manage the impact of a potential fossil fuel tax of R100 per tonne CO_2 by the end of calendar 2012 in South Africa.	Effective mitigation through including costs of carbon tax into our pricing models once the tax becomes effective. In the meantime, implementing projects to reduce the group's carbon footprint.	A voluntary research project was conducted with a fuel enhancer on certain of Group Five's equipment and fleet. An average fuel consumption improvement of 4% was seen in initial testing. The product is set to be rolled out in the group in the new year following approval by exco.

Key focus areas	Desired results	Status
Continue improvement through: **– Full compliance to environmental legislation and other applicable requirements** **– Ensuring approval for environmental management plans and reports which are still pending for the group's mining-focused operations** **– Ensuring that performance assessments and audits for mining operations are completed every two years and that specific risks inherent in the mining industry are addressed**	No fines or prosecutions and adhering to required legislation.	No fines or prosecutions received. Some corrective action is taking place in Construction Materials.
Record of decisions for construction contracts.	Action plans developed and in place for all contracts. Regular inspections and audits. Prevent non-compliance notices.	Action plans, inspections and audits in place. No non-compliance notices received.
Manage environmental non-conformances.	No fines or prosecutions.	Corrective and preventive action reports in place and no fines or prosecutions during the year.

Looking forward

Key focus areas for F2012	Desired results
Control and management of radioactive devices used for density and moisture assessment.	Full control and management of radioactive nuclear gauges used for density and moisture assessment to ensure compliance with radiation legislation
Ongoing environmental legal compliance at all construction sites as well as fixed operations.	All actual and potential risks identified, investigated and managed
Register Clean Development Mechanisms (CDM) projects qualifying for carbon credits.	Reduce the group's carbon footprint
Ensure continued adherence to all legislation to prevent fines and prosecutions.	No fines or prosecutions
Progress on developing renewable energy projects.	Registration of Clean Development Mechanisms (CDM) projects in South Africa, which will result in carbon credits. This in turn has a financial gain for the group
Finalise group-wide implementation of the fuel enhancer.	Realisation of at least 3% saving in group-wide diesel consumption

OPERATIONAL OVERVIEW FROM THE GROUP RISK OFFICER CONTINUED

Quality (business management system)

The key focus continued to be the progression from ISO 9001:2000 to ISO 9001:2008 across the group. All business units, outside of Construction Materials where significant restructuring took place, were certified.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Fast-track internal audit programme.	ISO 9001:2008 certification in all business units.	All business units with the exception of the Construction Materials cluster are ISO 9001:2008 certified.
Complete the integration of our SHEQ management system with quality.	Proactive addressing of non-conformances to our quality standards. Enhanced management ability to consistently deliver at pre-determined standards and improved understanding of the specific factors which inhibit consistent delivery.	An integrated SHEQ management system was implemented. An incident management system was updated in line with each business unit's requirements and was tested and implemented throughout Group Five.
Implementation of a new SHEQ structure which will drive one system, managed per cluster.	Full implementation during F2011.	Cluster heads were appointed and are driving the integrated system within each cluster.

Looking forward

Key focus areas for F2012	Desired results
Implement standard audits towards integrated management systems.	Conduct standard internal audits in each certified business unit not yet audited
Roll out a new SHEQ incident management system across all business units.	System implemented, with training on the use of the system to take place in F2012
Analysis of the results of management standards across the group and identification of areas for improvement.	Continuous improvement

Commercial

The commercial function faced challenging conditions this year in maintaining alignment and consistency in the negotiation of the group's preferred commercial terms when concluding contracts under tougher market conditions.

This was addressed through working closely with the group's finance department to ensure that, where concessions to group policy were made, these were executed only with senior approval and only where risks could be mitigated. The group remained committed to adhering to its stated policy of cash and margin preservation.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Increased focus on both basic and specialist commercial training.	Continued improvement around commercial decision making.	Basic training well established, with two courses presented during the year. Specialised training finalised for a number of different contracts.
Alignment of best practice commercial terms to the group's standard agreements.	Ensure best practice on the group's internal systems.	Critical policies and procedures were established. Continuous development takes place on supplementary processes.
Measurement, during contract execution, of adherence to risk processes and decisions made at contract inception. This process is currently monitored manually. Going forward, this will be automated.	Contract execution in line with commercial terms and conditions, as approved at initial risk review meetings. Automated tracking of necessary changes in commercial decisions during negotiation phase and following contract approval dates.	Outcome of initial risk review meetings now tracked and recorded electronically. Audits to be carried out to ensure final contracts are signed and executed in line with approved conditions at initial review stage.

Looking forward

Key focus areas for F2012	Desired results
Improve sub-contractor management by ensuring main contract risk transfer and evaluation of sub-contractor risk capacity.	Ensure alignment of preferred forms of sub-contractor agreements for the key conditions of contracts
Continued alignment of best practice commercial terms to the group's standard agreements.	Augment best practice available on the group's internal systems with identified priorities, such as sub-contractors
Measurement during contract execution of adherence to risk processes and decisions made at contract inception.	Conduct audit of signed contracts to ensure compliance with outcomes of risk process

OPERATIONAL OVERVIEW FROM THE GROUP RISK OFFICER CONTINUED

Legal and regulatory compliance

The legal and regulatory compliance function continued to focus on creating awareness of all relevant statutes and legal developments to ensure continued regulatory compliance. During the year, there were a number of key new legislative changes, including the new Companies Act and the new Consumer Protection Act.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Legal		
Spearheading the drawing up of formal group engineer, procure and construct (EPC) contract parameters for consideration and approval by the board.	This will enable the board to formally determine the group's risk appetite and risk tolerance in respect of EPC contracts, having given due consideration to the group's risk-bearing capacity.	The group delivered EPC parameters which were included in a modified contract lifecycle. This caters for the complexities of EPC contracting and was implemented by the risk team in Engineering and Construction. In addition, in support of the group's strategic objective to participate in more contracts on an EPC basis, the legal department, in conjunction with the Group Five Academy, rolled out a number of seminars raising awareness of the increased risks associated with EPC contracts.
Regulatory compliance		
An anti-corruption drive to support the group's over-border activities in Africa.	Identify and raise awareness of the corruption risks facing the group. Develop comprehensive policies and procedures to manage corruption risk.	Awareness seminars were held during the year to ensure employees are informed of legislation surrounding matters of corruption both locally and abroad. The new Companies Act requires the establishment of a social and ethics committee. One of the key functions of this committee is to monitor the company's efforts towards the reduction of corruption. Refer to page 117.
Focus on proactive involvement with both government and non-governmental anti-corruption agencies, both locally and over-border.	To proactively contribute towards the eradication of corruption in the countries in which the group operates.	The Organisation for Economic Cooperation and Development (OECD) included recommendations made by Group Five in their Phase 2 report which was released in July 2010. In the year under review, the group legal and compliance director represented the group on the task team which was established by the Engineering and Construction Risk Institute (ECRI) charged with preparing a best practice note on corporate corruption.
A focus over the next three years will be the installation of compliance logging and monitoring software (Exclaim) and the training of employees to utilise the software.	The board receives quarterly compliance reports. These are currently compiled manually. The group's new compliance software will enable the creation of online management dashboards and reports, as well as providing employees with online access to relevant statutes to drive compliance throughout the group.	The implementation of the compliance software was achieved in the areas of HR, safety and health and environment in all business units other than Construction Materials due its intensive restructuring.
Close out non-compliances with King III.	The group is striving to achieve compliance with King III.	Numerous non-compliances with King III which were previously identified were closed out during the year. For a table assessing the group's compliance to King III requirements, refer to page 119.

Looking forward

Key focus areas for F2012	Desired results
Legal	
Conduct awareness forums.	Further improve of group-wide awareness of key legal, commercial, compliance and risk issues
Regulatory compliance	
Roll out the compliance software system.	Effective compliance management across all compliance sectors
Assess the group's compliance to the new Consumer Protection Act.	Full compliance
Assess the group's compliance to the new Companies Act.	Full compliance
Continue closing out gaps in compliance to King III.	Full compliance

OPERATIONAL OVERVIEW FROM THE GROUP RISK OFFICER CONTINUED

Company secretarial

A review from the company secretary is contained on page 115. Below we provide our delivery against objectives outlined in our F2010 integrated report.

A detailed operational review from the company secretary can be found on page 23 of the CD contained within this integrated report.

Introduction

The recent changes in the legislative, regulatory and best practice standards of the corporate governance environment in South Africa have necessitated diligent consideration and review of governance policies and procedures by companies

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Companies Act No 71 of 2008, including a review of the terms of reference of the board committees to ensure full compliance with the Act.	To gain full compliance with the new applicable requirements of the Act when it is enacted.	To date, the board has approved an amended board charter and the terms of reference for its various board committees which are in compliance with the new Companies Act and King III. The board has committed to annually review these policy documents.
Evaluation of the board, its committees and individual directors.	An annual evaluation of the effectiveness of the board, committees of the board and the individual contribution of directors.	The board conducted an independent external evaluation. Various initiatives have since been initiated to address the issues raised from this evaluation. The most material issue was broadening the board's skills with the appointment of two additional non-executive directors.
Board succession planning.	Formalise and agree a succession plan for each member of the board.	Although the board has determined its core skills requirements, this process must still be defined and implemented.
Review of governance policies, procedures and relevant codes.	Gain/maintain alignment with the requirements of King III, JSE Listings Requirements and the new Companies Act.	The board has considered and approved various board policies, including an independent director questionnaire and professional advice policy. Group policies and procedures are continuously evaluated to gain alignment with leading governance practices.

Looking forward

Our key corporate governance focus areas for F2012 are outlined in the review from the company secretary on page 118.

REVIEW FROM THE COMPANY SECRETARY


Nonqaba Katamzi

The board accepted and approved a revised board charter and the terms of reference for all board committees in line with King III.

An external appraisal of the effectiveness of the board was conducted during the period.

Strategy · Risk · **Corporate governance** · Legal regulatory & compliance · People · Planet · Performance

The recent changes in the legislative, regulatory and best practice standards of the corporate governance environment in South Africa necessitated diligent consideration and review of governance policies and procedures. Group Five continuously strives to maintain and enhance sound governance standards through constant review of current and emerging legislation and requirements.

Of particular relevance during the year was the proclamation of the Companies Act No 71 of 2008 and Companies Regulations 2011 in May 2011. The group has also progressed well in terms of addressing non-compliance gaps relating to the implementation of The King Code of Governance for South Africa 2009 (King III). For a summary of the non-compliance issues identified in the prior year and how we have progressed in addressing these, refer to page 119.

Material issues during the year and how these were managed

Companies Act No 71 of 2008 and Regulations (new Companies Act)

With the coming into effect of the new Companies Act, it has been necessary for the group to address certain key governance and/or corporate administrative factors prescribed in the new legislation. At the time of drafting this report, the group was in the process of assessing the Act to determine the extent of non-compliance and to formulate a work plan to address those. On the next two pages we outline initial relevant areas we have identified.

A detailed operational review from the company secretary can be found on page 23 on the CD enclosed within this integrated report.

REVIEW FROM THE COMPANY SECRETARY CONTINUED

Section reference	New Companies Act amendment	Application to the group
Compliant		
Section 29	Annual financial statements to bear, on the first page of the statements, a prominent notice indicating whether the statements are audited or reviewed and who prepared or supervised the preparation of those statements.	A statement confirming these details is disclosed on the first page of the annual financial statements with the statement of responsibility by the board of directors.
Section 30(1)	Preparation of annual financial statements is required within six months after the end of the group's financial year end.	The group's annual financial statements are prepared and released within two months after its financial year end.
Section 30(4)	Companies must include particulars on remuneration (as defined in sub-section (6)) received by each director or individual who holds or has held any prescribed office in the company.	Particulars on the remuneration received by each director and prescribed officer in the group are provided on pages 72 to 76 of this integrated report.
Section 38	The board of a company may resolve to issue shares of the company at any time, but only within classes and to the extent that the shares have been authorised by the Memorandum of Incorporation.	Issue of authorised but unissued shares is subject to consideration and approval of the board.
Section 59	The board of a company may set a record date for the purpose of determining which shareholders are entitled to receive notice of a shareholders' meeting, participate in and vote at a shareholders' meeting, decide any matter by written consent or electronic communication, as contemplated in Section 60; exercise pre-emptive rights, as contemplated in Section 39; receive a distribution; or be allotted or exercise other rights.	The group has set a record date for shareholders' eligibility. Refer to the notice of AGM on page 256.
Section 66(9)	Remuneration of directors may be paid only in accordance with a special resolution approved by the shareholders.	A special resolution for approval by shareholders is included for the forthcoming annual general meeting (AGM) agenda. Refer to page 256.
Section 73(7)	Board resolutions must be dated and sequentially numbered and are effective as at the date of the resolution unless otherwise stated.	Board resolutions are dated and sequentially numbered.
Section 94	The audit committee (comprising at least three members) to be elected at each AGM.	Members of the audit committee are recommended to the AGM for shareholder approval.

Section reference	New Companies Act amendment	Application to the group
In the process of ensuring compliance		
Section 24	Retain the following documents, in written form, for a period of seven years: – Record of directors – Copies of all reports presented at an AGM – Annual financial statements and accounting records – Notices, minutes and resolutions of shareholders' meetings – Notices, minutes and resolutions of all board, audit, committee meetings – Securities register – Registration of company secretary and auditors	The group currently has a five-year record keeping policy in place. This will be addressed immediately.
Section 45	Approval by shareholders via special resolution for the provision of loans and other financial assistance to directors, prescribed officers, related and/or inter-related companies. If the board adopts a resolution it is required to advise shareholders and trade unions within ten days.	The group does not provide financial assistance to directors or to prescribed officers. It does, however, provide financial assistance to its subsidiaries in varying forms. This financial assistance was largely in place by 1 May 2011. The board has included a special resolution for approval by shareholders at the forthcoming AGM requesting general authority to issue such financial assistance. The group notes that there continues to be much debate as to the application of this section. It has developed a work plan to address the Act requirements and has sought external legal advice in support of the workplan.
Section 72(4) to (10)	The Minister of the Department of Trade and Industry may by regulation prescribe that a company or a category of companies must have a social and ethics committee, if it is desirable in the public interest, having regard to its annual turnover, the size of its workforce, or the nature and extent of its activities.	The board has not yet established a committee with a mandate to oversee the responsibilities envisaged by the Act for the social and ethics committee. This forms part of the group's work plan to close out gaps of non-compliance with the Act. The group is required to have addressed this by May 2012.
Section 75(6)	If a director of a company acquires a personal financial interest in an agreement or other matter in which the company has a material interest, or knows that a related person has acquired a personal financial interest in the matter, after the agreement or other matter has been approved by the company, the director must promptly disclose to the board, or to the shareholders in the case of a company, the nature and extent of that interest and the material circumstances relating to the director or related person's acquisition of that interest.	The group maintains a Conflict of Interest Policy. This requires all directors, prescribed officers and business unit directors to confirm any conflict of interest which may arise when the individual acquires a personal financial interest in an agreement or other matter in which the group has a material interest or knows that a related person has acquired a personal interest. This is declared on a quarterly basis. The policy, however, only states that disclosure needs to be made at each quarterly board meeting and not when the conflict arises. The policy has been amended and will be presented to the board for approval and implementation.

The board is of the view that the group is compliant with the Companies Act to the extent required and where practically possible. It has initiated a process of addressing areas of non-compliance to gain full compliance.

King III report

The group continued to address gaps identified through the King III analysis conducted in F2010. Various initiatives implemented by the group in response to these have resulted in the streamlining of governance areas. This includes, for example, the establishment of the IT steering committee, an advisory committee of the group's IT function and management that reports on an annual basis to the audit committee. Other notable changes include the first stages in the development of succession plans for executive directors and a review of the board structure, in particular the composition of board committees, such as the audit committee.

Board processes

An external appraisal of the effectiveness of the board was conducted during the period. The appraisal was benchmarked against the group's strategic requirements to ensure the capacity of the board to deliver these requirements and to strengthen the diversity and sector expertise of directors. The outcome of the appraisal was mainly positive, with the board being reported to be vigilant in terms of its role on governance and strategy. Contributions made by the board to operational issues were, however, found to be reactive. To address this, selected audit

REVIEW FROM THE COMPANY SECRETARY CONTINUED

committee and risk committee members joined executive management on a site visit to the Middle East to independently assess macro risks.

During the period under review, the board also accepted and approved a revised board charter and the terms of reference for all board committees in line with King III requirements. The key areas addressed were the annual appointment of the chairperson of the board and the annual performance review process of board committees. This especially includes the audit committee whose members are subject to formal approval by shareholders at an annual general meeting.

Areas identified for improvement include ensuring the development of a formal induction process, which was not addressed in the period under review, continuing education of directors and a requirement to recruit additional directors with relevant experience and industry-specific expertise to further strengthen the skills of the board. This has been addressed with the appointment in August 2011 of two new directors, Mr OA Mabandla and Mr DDS Robertson. Refer to page 35 on the CD contained within the integrated report for their CVs.

Although directors attend strategy sessions with management twice a year and attend site visits and internal industry-specific awareness programmes from time to time, the group currently does not have a formal induction process. The board's succession plan must also be presented to the board for consideration and approval.

Following the assessment of the main board, in the coming year the group will access the effectiveness of the sub-committees.

Employee share scheme

The company secretary is responsible for administrating the group's broad-based employee share scheme, the share appreciation rights scheme and the black managers' scheme together with an external service provider. During the year, there were a number of issues that required attention. These included errors resulting in delayed delivery of shares to the beneficiaries of these schemes. In the coming year, we will focus on completing an automation process and addressing all administrative issues.

Tip-offs anonymous line

The company secretary is also responsible for administrating the group's Tip-offs Anonymous line. The group experienced an increase in fraudulent and unethical behaviour during the year. Pleasingly, a 48% increase was seen in the number of tip-offs received through the group's ethics line and directly by the risk department. We believe this indicates that increased awareness and training has resulted in employees being more observant and willing to report incidents. Management's swift action in response to unethical acts has also communicated a clear message and potentially increased employee confidence in the process.

Looking forward

Key focus areas for F2012	Desired results
Companies Act No 71 of 2008 and Companies Regulations 2011.	Gain full compliance with the Act
Establishment of a social and ethics committee and management of Tip-offs Anonymous line.	Define and recommend terms of reference, strategic drivers and membership for consideration and approval of the board and effective management of the Tip-offs Anonymous line
King III requirements.	Review and recommend actions to close gaps for consideration and approval of the board
Further improve operational knowledge of the board.	Equip the board with technical knowledge to further improve the quality of guidance given to executives
Address board processes requiring implementation.	Implementation of formal induction and succession plans. Development of a continued education programme for the board
Employee share scheme.	Ensure all administrative issues are addressed

Appreciation

I wish to thank the Group Five board members for their continued support during the year. A special word of appreciation to our chairperson for her sustained focus on strengthening corporate governance. I also thank our group risk officer for his guidance during the year. I look forward to continuing to improve our governance processes in the coming year.

N (Nonqaba) Katamzi
Company secretary

5 August 2011

KING III SUMMARY

In line with the release of the King Report on Corporate Governance (King III), the group evaluated its readiness to comply during F2010. During the year, a number of gaps were closed out. On the next few pages we provide an update on areas we are still addressing, as well as those we closed out during the year.

Update of non-compliances from F2010

Code of governance principles		Gap identified in F2010	Status
Board of directors			
Role and function of the board			
The board and its directors should act in the best interests of the company.	2.14.3 Directors of the board should be permitted to take independent advice in connection with their duties following an agreed procedure.	Although the directors are permitted to take independent advice, the current process should be formalised.	This will be addressed in F2012.
The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fill the role of a chairman of the board.	2.16.1 The members of the board should elect a chairman on an annual basis.	Although the members of the board appoint the chairman and the chairman is evaluated on an annual basis, election only takes place when required.	This will be addressed in F2012.
	2.16.9 The board should ensure a succession plan for the role of the chairman.	Succession planning for the chairman is being considered as part of the current board evaluation.	This will be addressed in F2012.
The board should appoint the chief executive officer and establish a framework for the delegation of authority.	2.17.5 The board should ensure succession planning for the CEO and other senior executives and officers is in place.	Although this is currently being assessed internally for senior management and by the external, independent board advisors for the executive directors, there are no formal succession plans in place.	This will be addressed in F2012.
Director development			
The induction of and ongoing training and development of directors should be conducted through formal processes.	2.20 The board should ensure that a formal induction programme is established for new directors.	No formal induction programme in place.	This will be addressed in F2012.
Company secretary			
The board should be assisted by a competent, suitably qualified and experienced company secretary.	2.21.6 The company secretary should assist with the director induction and training programmes.	No formal director induction programme is currently in place.	This will be addressed in F2012.
	2.21.13 The company secretary should assist with the evaluation of the board, committees and individual directors.	Evaluations are performed by external service providers, with assistance from the human resources department.	This will be addressed in F2012.
Performance assessment			
The evaluation of the board, its committees and individual directors should be performed every year.	2.22.5 The nomination of the re-appointment of a director should only occur after the evaluation of the performance and attendance of the director.	This process needs to be adopted.	Partially compliant, with further action recommended. The directors who are being offered for re-appointment have been evaluated in the current year for performance and attendance. This needs to be formalised to ensure it takes place annually.
Board committees			
	2.23.9 Committees should be free to take independent outside professional advice at the cost of the company, subject to an approved process being followed.	Although general authority is granted, a formal process is not in place.	This will be addressed in F2012.

KING III SUMMARY CONTINUED

Code of governance principles		Gap identified in F2010	Status
Audit committees			
Membership and resources of the audit committee			
	3.2.6 The committee should be permitted to consult with specialists or consultants, subject to a board-approved process.	Although the committee is aware that it may engage with specialists, this process is not formalised or approved by the board.	This will be addressed in F2012.
The governance of risk			
The board's responsibility for risk governance			
The board should be responsible for the governance of risk.	4.1.1 A policy and plan for a system and process of risk management should be developed.	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed and the formal policy needs to be signed off by the board.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year, but the policy needs to be ratified by the board.
	4.1.4 The induction and ongoing training programmes of the board should incorporate risk governance.	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed and the formal policy needs to be signed off by the board.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year, but the policy needs to be ratified by the board.
	4.1.6 The board should approve the risk management policy and plan.	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed and the formal policy needs to be signed off by the board.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year, but the policy needs to be ratified by the board.
	4.1.8 The board should review the implementation of the risk management plan at least once a year.	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed and the formal policy needs to be signed off by the board.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year, but the policy needs to be ratified by the board.
	4.1.9 The board should ensure that the implementation of the risk management plan is monitored continually	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed and the formal policy needs to be signed off by the board.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year, but the policy needs to be ratified by the board.
The board should determine the levels of risk tolerance.	4.2.1 The board should set the levels of risk tolerance once a year.	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed and the formal policy needs to be signed off by the board.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year, but the policy needs to be ratified by the board.

Code of governance principles		Gap identified in F2010	Status
	4.2.2 The board may set limits for risk appetite.	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed and the formal policy needs to be signed off by the board.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year, but the policy needs to be ratified by the board.
	4.2.3 The board should monitor that risks taken are within the tolerance and appetite levels.	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed and the formal policy needs to be signed off by the board.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year, but the policy needs to be ratified by the board.
The risk committee or audit committee should assist the board in carrying out its risk responsibilities.	4.3.2.1 The risk committee should consider the risk management policy and plan and monitor the risk management process.	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed and the formal policy needs to be signed off by the board.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year, but the policy needs to be ratified by the board.
	4.3.3 The performance of the committee should be evaluated once a year by the board.	The board does not formally evaluate the performance of the risk committee. The effectiveness of the main board has been assessed, but not its sub-committees.	This is currently being addressed.
Risk assessment			
The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	4.6.1 The board should ensure that a framework and processes are in place to anticipate unpredictable risks.	Although a formal risk identification and mitigation strategy is in place to identify any gaps, a strategic risk assessment is not in place.	Partially compliant, with further action recommended. The group risk officer provides information to the risk committee on which risks have been identified as key risks within the industry and globally. This is done through research as well as through surveys. However, a strategic review needs to be performed.
Risk response			
The board should ensure that management considers and implements appropriate risk responses.	4.7.2 Management should demonstrate to the board that the risk response provides for the identification and exploitation of opportunities to improve the performance of the company.	Although the board is apprised of the key risks facing the group and a formal risk-bearing capacity process has been implemented, key risk indicators and dashboards need to be developed.	Partially compliant, with further action recommended. A risk tolerance framework and model was developed for the group during this financial year. The key risk indicators and dashboards will be developed within the next financial year.
Risk monitoring			
The board should ensure continual risk monitoring by management.	4.8.2 The responsibility for monitoring should be defined in the risk management plan.	A policy and a plan for a system and process of risk management has been developed but must still be presented to the board. The responsibilities for monitoring are included within the plan.	This is currently being addressed.

KING III GAP SUMMARY CONTINUED

Code of governance principles		Gap identified in F2010	Status
The governance of information technology			
The board should monitor and evaluate significant IT investments and expenditure.	5.4.3 The board should obtain independent assurance on the IT governance and controls supporting outsourced IT services.	Although the full service and support IT functions are outsourced, with a master agreement that governs the outsourced relationship and a service level agreement (SLA) that governs performance expectations, independent assurance has not been obtained.	This will be considered in F2012 with the implementation of a steering committee.
Compliance with laws, rules, codes and standards			
The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	6.2.1 The induction and ongoing training programmes of directors should incorporate an overview of and any changes to applicable laws, rules, codes and standards.	Although the board is informed of relevant laws, rules, codes and standards, including changes, this is not currently done as part of their induction. No formal induction programme is currently in place.	This will be addressed in F2012.
The board should delegate to management the implementation of an effective compliance framework and processes.	6.4.4 Management should establish the appropriate structures, educate and train, and communicate and measure key performance indicators relevant to compliance.	In the year under review, an electronic compliance system was introduced into the group and was rolled out in the human resources, safety and health and environment compliance sectors in all local business units, excluding the Construction Materials cluster.	Partially compliant, with further action recommended. Although the appropriate structures of education, training and communications are in place, the measurements of the key performance indicators relevant to compliance need to be confirmed.
Governing stakeholder relationships			
Dispute resolution			
The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	8.6.1 The board should adopt formal dispute resolution processes for internal and external disputes.	Although a crisis communications plan is in place to ensure that any emergency is communicated appropriately, with internal disputes managed through formal procedures determined by the human resources department and external disputes addressed relevant to each situation, a formal dispute resolution process has not been adopted by the board. The group has attempted to address this by inserting ADR clauses in contracts.	This will be addressed in F2012.

Closing out non-compliances from F2010

Below we outline areas where we addressed non-compliances from last year and when in the year this came into effect.

Code of governance principles		Gap identified in F2010	Status
Board appointment process			
Directors should be appointed through a formal process.	2.19.3 The appointment of non-executive directors should be formalised through a letter of appointment.	Although the appointment is formalised through the nominations committee, no formal letter is provided.	The newly appointed non-executive directors received a formal appointment letter in August 2011.
Director development			
	2.20.4 The board should ensure that directors receive regular briefings on changes in risks, laws and environment.	Although certain internal awareness training has been performed, this process needs to be further improved.	Internal awareness training was delivered during the year on matters which could have a material effect on the group.
Company secretary			
	2.21.11 The company secretary should assist in drafting yearly work plans.	The company secretary currently does not draft annual work plans.	The company secretary assisted in the second half of the year with the drafting of the F2012 annual work plan.
Board committees			
The board should delegate certain functions to well structured committees without abdicating its own responsibilities.	2.23.5 Companies should establish an audit committee and define its composition, purpose and duties in the Memorandum of Incorporation.	Although the group has an established audit committee with defined terms of reference, these terms need to be defined within the Memorandum of Incorporation.	In terms of Section 94(2) of the Companies Act 2008, this requirement is not applicable to the subsidiary companies of the group. The group has appointed an audit committee with defined terms of reference at group level. We complied with this for the full year.
Audit committees			
Membership and resources of the audit committee			
Audit committee members should be suitably skilled and experienced independent non-executive directors.	3.2.1 All members of the audit committee should be independent non-executive directors	MR Upton is an executive member and a member of the audit committee.	The members of the audit committee are non-executive directors. We complied for the full year.
Internal assurance providers			
The audit committee should be responsible for overseeing of internal audit.	7.4.5 The audit committee should be responsible for the appointment, performance assessment and/or dismissal of the chief audit executive (CAE).	Although feedback on performance is provided by the chairman of the audit committee, performance management is conducted by the CFO. The appointment of the current CAE was made with input from both the CFO and the chairman of the audit committee.	Input from the chairman of the audit committee was obtained and this was included in the internal audit charter. We complied for the full year.
The governance of risk			
The board's responsibility for risk governance			
	4.1.5 The board's responsibility for risk governance should manifest in a documented risk management policy and plan.	Although a risk policy has been developed and implemented within the group, a documented risk plan is not available.	The board's responsibility for risk is documented within the board charter and risk committee terms of reference and was presented to the board and approved in the last quarter of the year.

KING III GAP SUMMARY CONTINUED

Code of governance principles		Gap identified in F2010	Status
Risk assurance			
The board should receive assurance regarding the effectiveness of the risk management process	4.9.2 Internal audit should provide a written assessment of the effectiveness of the system of internal controls and risk management to the board.	Although internal audit provides written confirmation on internal controls through its reports to the audit committee in which each business is rated in terms of performance with respect to their control environment, the effectiveness of risk management is not expressly confirmed by the internal audit department.	The internal audit department audited the risk management processes and systems and the audit report was presented at the risk committee. This was complied with in the fourth quarter of the year.
The governance of information technology			
The board should delegate to management the responsibility for the implementation of an IT governance framework.	5.3.2 The board may appoint an IT steering committee of similar function to assist with its governance of IT.	There is currently no IT steering committee in place within the group.	The IT steering committee was formed in the third quarter of the financial year.
Compliance with laws, rules, codes and standards			
	6.4.3 Compliance with laws, rules, codes and standards should be incorporated in the code of conduct of the company.	Although the group currently has a formal code of conduct (the code of ethics), compliance with laws, rules, codes and standards are not expressly stated.	The group has a formal code of conduct, the code of ethics, in which compliance with laws, rules, codes and standards are expressly stated. We complied with this for the full year.
Internal audit			
Internal audit's approach plan			
Internal audit should follow a risk-based approach to its plan.	7.2.3.1 Internal audit should be an objective provider of assurance that considers the risks that may prevent or slow down the realisation of strategic goals.	Although rigorous and entrenched risk management processes are in place, further emphasis needs to be placed on providing assurance on the alignment of the group strategic goals and objectives to the risks facing the group.	The internal audit department reviewed the group-wide risk management process during the fourth quarter of the year. Alignment of group strategic goals and objectives to the risks facing the group is planned for the new financial year.
	7.2.3.2 Internal audit should be an objective provider of assurance that considers whether controls are in place and functioning effectively to mitigate these.	Although controls are in place, the review of the risk management process will include an assessment of controls and an assurance of opportunities available to the group.	Review of the risk management process was undertaken in the fourth quarter of the year and recommendations made are currently being actioned by the risk department.
	7.2.3.3 Internal audit should be an objective provider of assurance that the opportunities that will promote the realisation of strategic goals are identified, assessed and effectively managed by the company's management team.	They are independent assurers, but have not been strictly focusing on opportunity management.	Review of the risk management process was undertaken in the fourth quarter of the year and recommendations made are currently being actioned by the risk department.
The audit committee should be responsible for overseeing internal audit.	7.4.5 The audit committee should be responsible for the appointment, performance assessment and dismissal of the CAE.	Although feedback on performance is provided by the chairman of the audit committee, performance management is conducted by the CFO. Appointment of the current CAE was made with input from both the CFO and the chairman of the audit committee.	Input from the chairman of the audit committee obtained and this was included into the internal audit charter. We complied for the full year.

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REVIEW FROM THE GROUP HUMAN RESOURCES DIRECTOR

15%

Increase in training interventions

5 767

Health evaluations done

Junaid Allie

Strategy Risk Corporate governance Legal regulatory & compliance **People** Planet Performance

Over the last few years, we have adopted an active approach towards becoming an employer of choice by developing an employment experience which offers meaningful value to our employees and by creating an environment in which all our employees are engaged and able to develop optimally.

The group's commitment to our employees through its corporate values and employment value proposition remained in place during the year and was particularly relevant in the current tough economic environment where retention of key talent becomes even more critical. Our focus on employees continued to pay dividends, with employee retention, individual productivity and employee feedback improving further.

Material issues during the year and how these were managed

Reacting to current market conditions

The previous financial year ended on a high note as the group completed the majority of its large infrastructure contracts linked to the 2010 FIFA World Cup. Delivery of these contracts and others during a period of peak activity required an increase in human capital capacity, which resulted in the group increasing its employee base.

In contrast, the current year saw the need to downsize our workforce as the impact of the local construction recession deepened. This resulted in reduced public and private sector spend and downward pressure on order books in the industry and the group. Our headcount decreased from 12 497 in F2010 to 11 997 in F2011. We aimed to approach all retrenchments in a professional and sensitive manner and with a focus on retaining core skills that will be required when markets return.

Addressing employee feedback

The group has conducted employee feedback surveys for the last few years. In the previous year, a key focus area raised by employees was the need to better understand the group's performance management processes. To address this, we launched a training programme to explain the management process and to clarify our employees' accountability for performance. We also implemented an automated performance management system to ensure an increase in employee feedback and appraisals. We expect that in the coming year this will result in at least 80% of our employees partaking in performance management discussions and maintaining feedback documents at any point in time.

For a detailed report on all aspects of human resources management, turn to page 30 on the CD within this integrated report. A table summarising the key delivery areas around HR can be found on pages 128 to 139 of this integrated report.

REVIEW FROM THE GROUP HUMAN RESOURCES DIRECTOR CONTINUED

Managing core skills and retaining individuals who are in key positions or who may be appointed into core positions in the group is critical to the group's success and delivery on its strategy during tough trading conditions.

Retention of key skills

Managing core skills and retaining individuals who are currently in key positions or who may be appointed into core positions in the group is critical to the group's success and delivery on its strategy during tough trading conditions. To address this, we intensified our focus on succession management. This was formalised throughout the group, with managing directors accepting accountability for their respective business unit succession plans. We continued the roll out of our employment proposition of retaining quality managers and management systems, remunerating employees competitively, developing them through The Group Five Academy and creating development opportunities for different roles in the group.

Managing over-border employees

A key challenge for the group is to increase the mobility of our workforce in support of our geographic expansion. During the year, we therefore reviewed our over-border human capital procedures and enhanced internal awareness of the international work opportunities available. Business units which have retained an over-border presence over the last few years have established a reliable international recruitment database and process to rapidly resource contracts. These databases will be utilised across the group as additional businesses expand geographically.

Formal skills development

Ongoing development of employees through The Group Five Academy remains crucial to the group's employee value proposition. During the year, we further refined our approach to training in the group to ensure we remain efficient in our delivery of development programmes. We increased the number of training interventions delivered from 14 941 in F2010 to 17 234 in F2011.

Broad-based black economic empowerment (BBBEE)

As the group is in the process of unwinding a portion of its BBBEE ownership transaction with one of our shareholders, iLima Consortium, we deemed it prudent to exclude any potential contribution from iLima to the ownership element of the group's BBBEE scorecard during this year's verification audit. Notwithstanding this adjustment, the group is pleased to have improved its overall rating to a Level 2 contributor. This was achieved due to a particularly strong focus on skills development, procurement and the employment equity elements.

However, going forward the group will need to focus its attention on its ownership structure and employment equity targets, specifically amongst senior employees, to ensure it retains its Level 2 rating. The board has mandated management to review and propose a future BBBEE shareholding structure which will be presented to shareholders for approval. This process is currently underway. As outlined earlier in this report, to address the equity target under-performance at management level, the group has implemented a succession management process which will assist in identifying and developing more black talent into management levels.

Managing the health of our employees

Employee wellness was further improved in the year through additional health awareness campaigns. We set a target two years ago to ensure that 80% of our employees are aware of their HIV status over a two-year period. We have achieved this. We also intensified our focus on ensuring improved compliance with occupational health standards by our employees. In line with this, we increased the number of health evaluations from 5 176 to 5 767 in F2011. We also improved employee attendance at primary healthcare medical evaluations.

Looking forward

Key focus areas for F2012	Desired results
Internal HR efficiencies.	Align HR processes across geographies to limit duplication of resources
Succession management.	Actively manage this as an HR process and key management tool
Ensure a cohesive organisational culture.	Uniform standards and behaviours throughout the group to facilitate effective cross-business unit integration on mega-contracts requiring more than one business unit's involvement
Address ownership and employment equity performance.	Improve our BBBEE ownership element to meet both the Construction Charter and Mining Charter requirements Create a more equitable demographic representation at middle and senior management level through succession management, skills development and external recruitment
Effective resourcing of our international operations.	Mobilise resources and fill critical positions in support of the group's geographic expansion

Appreciation

Firstly, I wish to acknowledge the contribution of the group's human resource professionals. This year was particularly difficult and you have dealt with the challenges well. Secondly, the group's Academy has once again improved the customisation and delivery of quality and relevant training programmes linked to the group's needs. I thank you for that. Lastly and importantly, I acknowledge the group's leaders who value the contributions made by the human resources and learning and development functions in the group and who empower their teams to truly live the corporate values of Group Five.

MJ (Junaid) Allie
Group human resources director

5 August 2011

OPERATIONAL OVERVIEW FROM THE GROUP HUMAN RESOURCES DIRECTOR

The next few pages provide supplementary information to the review from the group human resources (HR) director. We outline how we delivered against our objectives in terms of the areas under the HR director's responsibility. These include human resource management, employee wellness, employee relations, human capital development and transformation.

Detailed information around operational performance within these areas can be found on pages 38 to 68 on the CD contained within this integrated report.

Human resource management

Over the last few years, we have adopted a proactive approach towards becoming an employer of choice. Our focus on employees continued to pay dividends, with employee retention, individual productivity and employee feedback improving further.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Keep our employees committed and engaged by supporting training, career development and ensuring effective communications.	Motivated employees during the downturn, with preparation in place for the next upturn. Maintain or improve our F2010 employee engagement score of 65.9%.	Our employee engagement score improved for the third consecutive year. Our overall score was 67%, which is within the "Top Company" range for the second consecutive year.
Drive our performance-based culture.	Increased efficiency and delivery against key deliverables to ensure maintenance or improvement of operational results.	While our target remains 100%, we saw a pleasing improvement this year with 74.5% of employees having received a comprehensive performance appraisal. This is a pleasing increase from the 67% achieved last year.
Transformation and succession at senior and executive levels.	Identify opportunities to develop and promote black successors.	Succession planning is a key HR process within the group. While the roll out within business units is still in an early phase, significant improvements are expected from this management tool.
Ensure that our people and systems are geared for international opportunities outside the South African market.	Ensure that we are able to mobilise our people and resources quickly, without detracting from our employee value proposition.	The group's international remuneration policy was reviewed during the year, which resulted in improvements in employee mobility and the HR administration system for the management of expatriate employees.
Manage our industrial and employee relations effectively in a tougher market.	Committed employees, focused on achieving the group's objectives. Resolve potential areas of conflict with least disruption to productivity and employee morale.	Operational downsizing in various areas put pressure on industrial relations. However, our proactive approach ensured that relationships remained constructive in most areas.

Looking forward

Our key human resource management focus areas for F2012 are outlined in the review from the human resources director on page 127.

Employee wellness

During the year, we focused on creating improved awareness around wellness. This included the roll out of our employee assistance programme introduced last year and health campaigns throughout the group.

The group's common chronic medical conditions remained hypertension, cholesterol and diabetes mellitus. Although still within national norms, it is of concern that the percentage of employees diagnosed with these conditions increased across all conditions. We will continue to create awareness through our educational campaigns about health awareness to promote early diagnosis and effective management of medical conditions.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Create health awareness through our employee wellbeing programme.	Health awareness to ensure continued productivity and employee assistance.	In F2010 we introduced an employee assistance programme. The uptake has been encouraging, with 670 employees using the service to date. The key areas of counselling have been personal financial management and relationships. The number of employees counselled on HIV and Aids was also well above the average for the industry. During the year, we focused on actively communicating wellness issues to employees though a poster campaign and employee wellness sessions.
Increase the number of medical evaluations.	Proactively manage identified health issues.	During the year, 5 767 employees completed medical examinations (2010: 5 176) and 99% of our directors attended executive health examinations.
Improve reporting and management of medical surveillance.	Early identification of health trends and intervention to ensure a healthier workforce.	During the year, we integrated our occupational health provider's data with our internal human capital system.
Further rolling out HIV/Aids testing.	Achieve the target of 80% of employees knowing their status over a two-year period.	80% of employees know their HIV/Aids status.

Looking forward

Key focus areas for F2012	Desired results
Ensure increased health and wellness awareness.	A workforce which proactively manages their health and associated safety
Roll out integrated reporting.	Reporting that provides a holistic view of the wellness of our employees to ensure proactive management
Increase occupational wellbeing assessments.	Timely health assessments to ensure we detect, manage and prevent diseases
Improve employee awareness of prevalent diseases within the group, including cholesterol, diabetes mellitus and hypertension, as well as educating employees on personal financial management.	Awareness of health and wellbeing in these areas

OPERATIONAL OVERVIEW FROM THE GROUP HUMAN RESOURCES DIRECTOR CONTINUED

Employee relations

Our employee relations remained robust this year. Although bargaining councils or workplace forums are in place for most of our business areas, progress at an industry level in establishing a bargaining council for the civil construction industry has been slow. This is particularly relevant to us as Civil Engineering is the largest employer of labour in the group. In response to the heightened tensions in the organised labour arena we concentrated on maintaining the integrity of our employee relations and increasing the competence of our managers to deal with the complexities experienced in this field.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Intensify communication with our employees and organised labour on the economic constraints facing the group.	To manage expectations and prevent a deterioration in trust between management and organised labour.	Operational downsizing in various areas placed pressure on our industrial relations. However, our proactive approach ensured that relationships remained constructive with senior management engagement in areas where there were difficulties, such as the Kusile power contract and the Construction Materials cluster.
Ensure that our industrial relations processes are above reproach.	To limit the number of CCMA cases and to maintain our record of success with loss cases remaining very low.	Significant improvements were achieved with the launch of disciplinary, chairman and complaint initiator training.
Evaluate trends in the market in terms of industrial action.	Taking proactive action to prevent similar incidences in our group.	We achieved this, with the number of man-hours lost through industrial action reducing by 43% this year. The group is a signatory to the civil engineering sector agreements. We are in full compliance with its associated timelines and negotiated agreements.
Ensure that all worker representative forums within the group are functioning.	Effective two-way communication.	All business units have functioning worker representative forums in place. Disputes were kept to the minimum. CCMA referrals reduced by 13%, with a loss ratio of less than 2%.
Increase our employee relations capacity.	Ensure that management has permanent, in-house and cost-effective access to labour law services.	A full-time labour law attorney was employed to advise management on labour law and to ensure the group is compliant with labour law.
Introduce an executive review process to ensure that retrenchment-based terminations are carried out within best practice guidelines.	Ensure that management's decisions in this regard are tested internally prior to the launch of the process.	Internal review processes are now in place and resulted in an improvement in the adherence to due process.
Develop the capacity of our HR professionals to equip them to present our cases at the CCMA and training our managers in terms of both drawing up disciplinary charges and chairing disciplinary enquiries.	Effective handling of disciplinary procedures and CCMA representation.	A panel of qualified chairpeople was identified and trained in the requirements and skills needed when presiding over disciplinary enquiries. Cooperation between the HR and internal risk management departments increased to manage employee-related risk issues such as fraud and theft. Refer to page 9 on the CD contained within this integrated report.

Looking forward

Key focus areas for F2012	Desired results
Ongoing focus on enhancing competence in dealing with sensitive employee relations issues.	Ensure that management is able to maintain credibility, discipline and employee engagement in the face of increasingly hostile interventions from organised labour
Continued proactive engagement with organised labour at industry level.	Facilitate a peaceful and mutually acceptable solution to organised labour's drive towards centralised bargaining in the construction industry
A comprehensive understanding of labour laws in the foreign countries in which we operate to ensure compliance.	Maintain good employee relations in our international operations Reduce the number of CCMA referrals in South Africa to below its current levels. Where CCMA cases are unavoidable, we want to achieve a success rate of 100%
To stay abreast of the anticipated changes to labour legislation and develop a strategy in this regard.	Proactive response to anticipated changes in legislation without disruption of the workplace Maintain and improve our current compliance to labour laws

OPERATIONAL OVERVIEW FROM THE GROUP HUMAN RESOURCES DIRECTOR CONTINUED

Human capital development

The Group Five Academy is responsible for the planning and delivery of learning and development across the group, as well as maintaining support systems to track and manage all learning. The Academy also coordinates and manages learning opportunities for enterprise development partners, as well as structured initiatives for the unemployed as part of the group's socio-economic development initiatives.

During the year, we concentrated on increased engagement with business units to ensure training initiatives remain valuable to the achievement of business goals. In spite of tough economic conditions, the overall training spend (including employees, learnerships and bursaries) for the financial year increased from R31,5 million in F2010 to R37,9 million. Employee training interventions increased from 14 941 in F2010 to 17 234 in F2011.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Ensure that training interventions add value to enhance competence and productivity of individuals in the group.	Improved individual competence to deliver on time, within budget and according to specification.	17 234 training interventions were delivered during the year. Programmes continue to be reviewed for effectiveness to ensure they meet group requirements and strategy.
Use e-learning as a method of training to keep productivity on our contracts at the required levels.	An effective training platform which limits on-site downtime and increases the development opportunities of our employees.	The available e-learning modules have increased. Electronic learning will continue to be promoted with a more focused site-specific approach.
Encourage a culture of learning, particularly through the further expansion of mentoring in the group.	Sharing of knowledge and increasing the group's skills base.	Adoption of the formal mentoring model throughout the business is increasing steadily, with 42 mentors trained in the year. The roll out of the group's performance management process will help identify the opportunities to increase the level of mentorship in the group.
Build awareness of our brand at institutions of higher learning to ensure we are viewed as an employer of choice.	Being an employer of choice in the sector and industry.	Consistent engagement with institutions of higher learning resulted in significantly increased attendance at information sessions and recruitment opportunities. We ranked first as an employer of choice in the construction sector in the Magnet Top Employer of Choice awards.

Looking forward

Key focus areas for F2012	Desired results
Skills development	
Fully utilise resources within the Construction Skills Training Academy. **Proactively manage requirements of the new SETA landscape.**	- Practical construction-related training which delivers direct results in terms of improved quality on site - Optimal value within the constraints of various legislative parameters and codes of conduct - Access SETA funding for additional programmes to deliver relevant skills to the group and the sector
Technical and professional competence development	
Initiatives to promote compliance to changes in legislation. **Provide access and support to the development of professional competence programmes.**	- Training which results in an awareness of and adherence to legislation and associated changes in behaviour - Professional qualifications which benefit the group and the individual
Leadership and management development	
Manage transitions in all aspects of work, including technical, cultural or inter-personal. **Mentors to support learners to apply new knowledge and approaches.**	- A culture which is responsive to change and individuals who are resilient to adjustment - Leaders who are self aware and prepared for the challenges within the workplace, the industry and the geographies in which we work
Student management	
Recruitment methodologies. **Build brand awareness to attract the best caliber of students.**	- Ensure that new recruits are matched to the group and its future needs
General	
Take training to the site – either through e-learning or through creative approaches to deliver classroom training at a site level.	- Relevant and timeous development initiatives in the group which have a greater reach and result in better integration of employees from various business units
Establish information system capability to track training initiatives.	- Effectively monitor and report on training initiatives - Engage in sub-contractor training and development to increase quality and safety on site and improve the quality of training done over-border

Transformation

Ownership

Group Five concluded a broad-based black economic empowerment (BBBEE) transaction in September 2005 which resulted in 26.1% of its enlarged share capital being made available to black South Africans. Regrettably, one of our shareholders, the iLima Consortium (iLima), defaulted contractually and this required the unwind of their portion of the initial transaction.

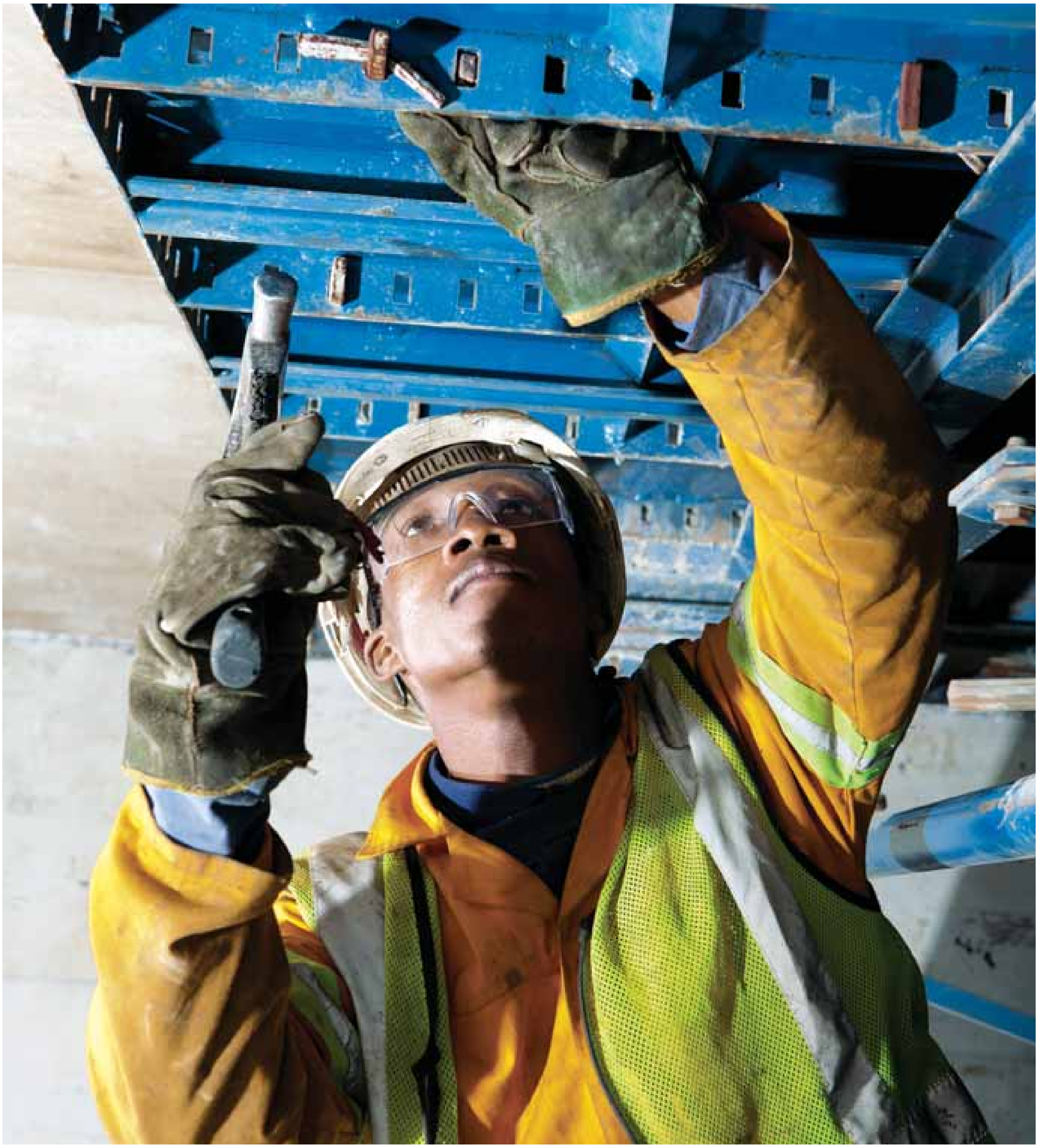
The group excluded any potential contribution from iLima to the ownership element of the group's latest BBBEE scorecard verification audit conducted in September 2010. This resulted in a black shareholding of 25.67%. Notwithstanding this adjustment, the group's overall rating is a Level 2 contributor due to a particularly strong focus on the skills development, procurement and employment equity elements. We are currently the only large construction group with a Level 2 rating.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Partial unwind of initial BBBEE ownership transaction.	Manage the finalisation of the unwind of the iLima Consortium portion of our BBBEE ownership transaction.	The iLima unwind process has continued through the legal process.
Address the group's future black ownership strategy.	The board will evaluate alternatives available with a focus on ensuring a robust strategy to address the intent and spirit of the scorecard, as well as the strategic direction of the group.	The board has initiated an evaluation process.

OPERATIONAL OVERVIEW FROM THE GROUP HUMAN RESOURCES DIRECTOR CONTINUED



Looking forward

Key focus areas for F2012	Desired results
Manage the unwind of the iLima portion of our initial ownership transaction.	Timeous exit from the ownership agreement with iLima
Finalise future ownership alternatives and implement when appropriate.	Improve the overall ownership element to meet the 30% Construction Sector Scorecard ownership target, which will be relevant to us in F2013

Management

While we still have significant work to do before our management structures are representative of the South African demographic profile, we have improved our senior management element of the Construction Charter Scorecard from 2,3 points to 6,6 points out of 10 in our last verification audit in September 2010. Our success in terms of developing internal candidates is also demonstrated by the fact that 82% of promotions across the group and 58% at management level were secured by black employees.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Improve transformation at senior levels.	Move towards the sector transformation targets of 35% senior management and 45% for middle management.	Against difficult market conditions, limited opportunities for recruitment and decreased employee turnover, we managed to achieve an increase in the percentage of black representation in the senior management category as per the Employment Equity Act from 11.1% to 16.7%. Modest improvements were seen in middle management and specialist categories. Our internal succession plan revealed a strong pipeline of junior candidates available for advancement.
Ensure that the composition of the board is as diverse as possible.	Functional and diverse board.	The board conducted an assessment which recommended additional international engineering and legal skills. Two new board members were appointed effective August 2011. The diversity of the board is strong.

Looking forward

Key focus areas for F2012	Desired results
Improve transformation at senior management levels.	Progress towards the BBBEE sector targets of 35% senior management and 45% middle management, which come into effect in F2013
Maintain diversity at board level.	A functional and diverse board
Continue to profile the group as an employer of choice.	Ability to attract and retain black talent in the group

OPERATIONAL OVERVIEW FROM THE GROUP HUMAN RESOURCES DIRECTOR CONTINUED

Employment equity

The group is committed to increasing the proportional representation of African, Coloured and Indian employees within the group and to systematically remove any barriers to their advancement.

Notwithstanding the reduction in overall headcount and the slowdown in recruitment, the proportional representation of African, Coloured and Indian employees in the senior management occupational category, as per the Employment Equity Act, increased from 11.1% to 16.7%. The middle management occupational category increased from 16.0% to 18.8% and in the junior management category from 63.2% to 67.0%.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Ensure that our new mentorship programme receives traction in the group and that management is accountable for achieving real results in transformation.	Ensure that black employees are prepared to take on management positions, as and when they arise.	Functioning mentorship programme exists in all major areas of the group. These programmes focus on the accelerated development of our junior management in general and our pool of young black talent in particular. The number of employees being mentored increased from 102 in F2010 to 169 in F2011.
Roll out our diversity programme across the group with a view to achieve a step change.	Greater awareness and tolerance to differences in the workplace and leveraging differences.	The group's diversity programme continues to be well received and attended, with 610 employees having been through the programme to date. Pleasingly, the incidences of racially-based grievances reduced drastically. We have also seen an improvement in employee feedback engagement scores from black and female employees.
Scrutinise all opportunities which become available in terms of vacancies and promotions to give priority to equity candidates.	Create a stronger pool of black candidates to fill vacancies at senior management level.	All vacancies are advertised internally and internal audit processes implemented to highlight non-compliance to equity procedures.
Refine our succession management process.	Create leadership depth and fill identified positions with black or female candidates.	A comprehensive succession management tool kit was implemented in this financial year. Business units are in the process of completing their succession plans for scrutiny by the executive team early in F2012.
Create more momentum and efficiencies in our employment equity committees to impact our equity profile.	Functional equity meetings which drive the demographic change and actively address the employment barriers.	The group has worked closely with business units to result in functional equity meetings and to ensure that required actions are taken. The group was audited by the Department of Labour in line with the South African Employment Equity Act. This compliance included identification of discriminatory practices in our policies, practices and remuneration. At the time of writing, we were awaiting formal feedback from the department.

Looking forward

Key focus areas for F2012	Desired results
Gain further momentum in our mentorship programme.	Prepare black employees for management positions and promotions, as opportunities arise
Prepare a group employment equity plan which will cover targeted affirmative action measures.	Effective affirmative action to address the current slow progress of black South Africans into middle and senior management roles. This will ensure that business units meet their employment equity and BBBEE scorecard requirements
Gain traction in our succession management process.	Create leadership depth and, where possible, fill identified positions with black or female candidates
Continue to scrutinise vacancies and promotions to prioritise equity candidates for these positions.	Create an increasingly stronger pool of black candidates to fill vacancies at management level

Procurement

Group Five continues to focus on the transformation of its procurement profile. Currently, 33% of suppliers have empowerment certificates in place. During the year, R3,1 billion of the group's total South African procurement spend of R5,8 billion was spent on black suppliers. Expenditure with black-owned businesses increased from F2010 by more than 60% and expenditure with black women-owned businesses by more than 70%.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Identify and develop small and medium black-owned and black women-owned enterprises.	Achieve the Construction Charter objectives in the medium to long term.	Expenditure with black-owned businesses increased by more than 60% and expenditure with black women-owned businesses by more than 70%.
Targets have been set for the next year for each of the measurement principles. This will continue to facilitate and promote the preferential procurement strategy.	Ensure that we achieve not only the objectives of the Construction Charter, but also a competitive supplier base which supports quality, safety and environmental requirements of the group.	The set targets were exceeded in each area.

Looking forward

Key focus areas for F2012	Desired results
Stretch targets focusing on the Construction Sector Charter Scorecard final targets, which will be applicable to us in F2013.	At least 10% growth in the use of empowered enterprises
Identify black women-owned enterprises which can be developed.	At least 20% growth in the use of black women-owned enterprises
Develop processes to facilitate the management of valid BBBEE certificates.	Automate the process of retrieving and archiving empowerment certificates which require annual renewal

OPERATIONAL OVERVIEW FROM THE GROUP HUMAN RESOURCES DIRECTOR CONTINUED

Enterprise development

Our inaugural enterprise development programme in 2006 was driven almost exclusively by the group's corporate office. Our focus this year was on maturing these relationships at a business unit level and ensuring that the various management teams take full ownership and accountability for their partnerships.

We managed to achieve 100% of the BBBEE scorecard requirements for enterprise development during our last BBBEE audit in September 2010.

During the year, we entered into two additional formal enterprise development partnerships, which brings the total number of partnerships to nine. With a further two contract-specific partnerships, we have 11 partnerships, which is in line with management's target of engaging with 12 partners by F2012.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Continue building sustainable systems and capacity in our existing seven partners.	To prepare our enterprise development partners for growth by ensuring that they have robust management systems in place.	We continued mentoring our enterprise development partners. Positive feedback was received from our partners on the programme to date.
Increase the number of enterprise development partners to 12 over the next two financial years.	Each business unit to have at least one enterprise development partner to increase our capacity to participate in BBBEE compliant bids, while also reducing our dependence on traditional joint venture partners.	We currently have nine formal enterprise development agreements, with an additional two contract-based agreements.
Offer management development to our enterprise development partners through: **– Exposure to leadership programmes through the Group Five Academy** **– Exposure to the Group Five performance management programme** **– Increased participation in the formal management development programmes offered by the Academy**	Develop sustainable management capacity within enterprise development partners.	Attendance of management development programmes at the Group Five Academy by employees from our enterprise development partners increased during the year.
Offer joint venture contracting opportunities, as these are the most efficient way to transfer practical skills when working with our partners.	Facilitate growth of our partners without risk of over-trading.	All of our partners were engaged in either a joint venture or sub-contract with Group Five business units during the year.
Where financial assistance is provided, an uncompromising reporting regime, together with risk identification, mitigation and remedial actions, will be required.	Ensure no undue exposure to Group Five in terms of non-payment.	Financial assistance granted to the enterprises this year was reviewed by the executive committee. Business unit operational management monitors the enterprise partners' financial management every month.

Looking forward

Key focus areas for F2012	Desired results
Identify and enter into at least three more formal enterprise development relationships which comply with the group's risk selection process during the course of the new financial year.	Increase the formal enterprise development relationships to 12 by the end of F2012
Identify opportunities to provide the required enterprise development support in line with the Construction Charter and with the Group Five risk protocol.	Meet our scorecard requirements without exposing the group to undue risk
Accelerate managerial competency within our enterprise development partners through continued exposure to the various leadership development programmes offered by the Academy.	Develop sustainable management capacity within our partners

Socio-economic development

The biggest socio-economic development (SED) spend continues to be on empowering people with knowledge and skills to create independence. During the year, 53% of the SED budget was spent on education and skills development programmes in various communities around South Africa.

Economic development and entrepreneurship programmes represented 9% of the spend. These programmes assist communities to become self reliant. This was well below our 35% target due to a concentration on the skills development and social grant aspects of the SED strategy. This will receive renewed focus in the new financial year.

Due to economic challenges in South Africa, the group received a significant increase in applications for emergency social grants. The group decided to temporarily veer from its long term SED strategy to provide urgent, short term relief to a number of charities. The group also launched an employee assistance programme alongside its HIV/Aids programme. Both programmes are funded as social spend under the SED programme. This led to 38% of our total SED spent on social grants compared to the 10% target.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Continue to develop local community skills and capacity and partner with local government, traditional leaders and other community leaders to ensure effective implementation of our SED initiatives.	Local government employees and community leaders who are able to assist in sustaining SED initiatives.	Significant in-roads were made in forging links with various communities. However, more focus is still required to result in skills transfer and sustainability of community support programmes.
Manage programmes efficiently, which will involve instituting regular reporting and monitoring systems of our SED programmes.	Efficient internal implementation and monitoring processes of all the group and business unit SED initiatives.	Each business unit submits quarterly reports on their SED participation and spend. The impact in terms of programmes is reported on and monitored at the board SED committee.
Communication of Group Five's community initiatives to various stakeholders.	Stakeholder awareness of Group Five's active role in community development.	Although we made a concerted effort this year to promote our SED initiatives through information programmes, most of our key stakeholders are still not aware of our initiatives.

Looking forward

Key focus areas for F2012	Desired results
Identify and implement entrepreneurial projects which will empower target communities with skills and resources to sustain themselves.	Create economic opportunities in target communities which will assist in reducing poverty and unemployment
Efficient management of current SED initiatives though technology support tools and regular monitoring to ensure containment of costs within the allocated budget.	Improved planning and accuracy of information to assist in monitoring and evaluation of SED programmes and their impact
Ongoing engagement, capacity building and effective monitoring of selected key beneficiaries.	Improved community engagement and self-reliance
Refocus business unit programmes to align with the agreed focus areas and targets and to ensure the effective proportional spend in line with each focus area.	Proportional spend within the set parameters, with a particular focus on achieving the 35% economic development target spend

OPERATIONAL REVIEWS

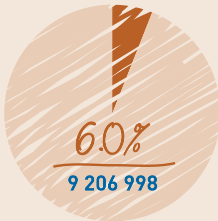
Group structure

Contribution to group revenue (R'000)

Investments and Concessions

Infrastructure Concessions

Property Developments



554 659
Investments and Concessions

Manufacturing

Fibre Cement

Steel

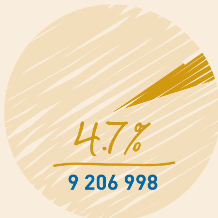
867 523
Manufacturing

Construction Materials

Sand and aggregates

Readymix and extenders

Mining crushing services



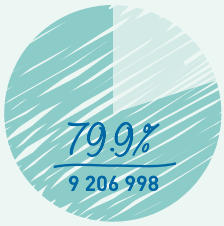
434 233
Construction Materials

Construction

Building and Housing

Civil Engineering

Engineering*



7 350 583
Construction

***Engineering and Construction (E+C)**

As previously communicated, the group's strategy is to establish E+C as a fifth cluster within the group. However, market conditions have slowed the intended growth plan of this business. For F2011 the unit remained managed and reported as part of the Engineering segment.

E+C allows the group to grow by moving up the hierarchy of infrastructure delivery to take on design, build and engineering procurement and construction (EPC).

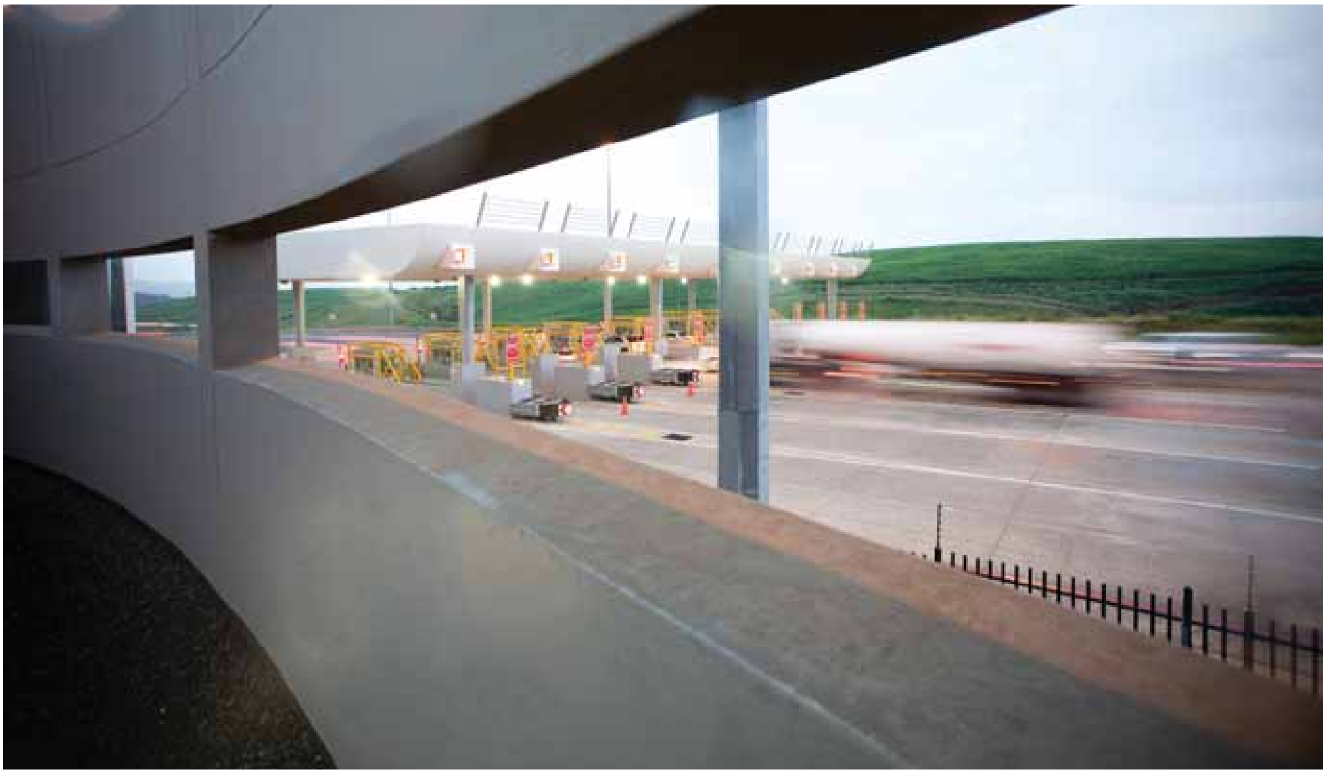
For comparative purposes we provide both the group's total operating margin and the core operating margin in the operational reviews. The core margin is net of all the non-core transactions of pension fund surpluses and deficits, fair value adjustments, impairments etc. Commentary is therefore provided against the core margin, as we believe this is the pure operational margin as reflected in our annual financial statements' segmental report.

OPERATIONAL REVIEW – INVESTMENTS AND CONCESSIONS

Investments and Concessions comprises Infrastructure Concessions and Property Developments.

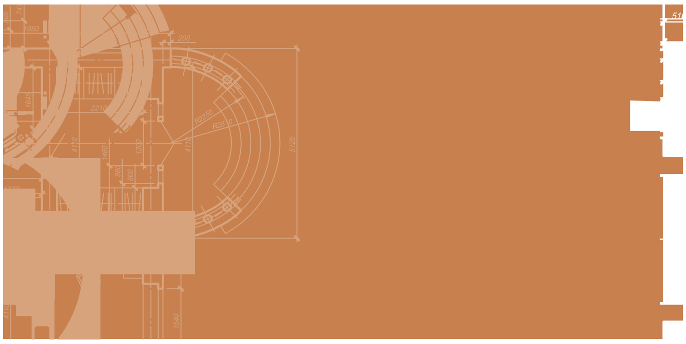
Eric Vemer

Investments and Concessions contributed 6.0% (2010: 5.2%) to group revenue and 12.1% (2010: 8.5%) to group total operating profit.



Infrastructure Concessions

R million	F2011	F2010
Revenue	523	557
Total operating profit	73	86
Core operating profit	73	84
Core operating margin (%)	14	15
Fair value profit	33	14
Investments	253	224
Employees (pax)	1 453	1 308



Infrastructure Concessions contributed 5.7% (2010: 4.9%) to group revenue and 14.6% (2010: 9.8%) to group total operating profit.

The group currently has active concessions in the transport sector under the **Intertoll** brand. The group is developing additional concessions in the power and public real estate sector and is targeting the water sector. This report therefore discusses the **broader concessions** market and focus, as well as the specific **transport concessions** portfolio of Intertoll.

Market review

Concessions

While South Africa still leads the private public partnerships (PPPs) market in Africa, our exposure to countries such as Uganda, Kenya, Mauritius, Zambia, Botswana, Ghana and Zimbabwe highlights the growing trend in Africa to pursue PPPs as a vehicle for delivery of infrastructure.

Across the continent, different forms of PPPs are being considered as a mechanism to provide roads, water, electricity, public buildings and other services. The political will to initiate contracts and fast-track the process wherever feasible is also present. However, as there is a development period associated with new markets, and while the opportunities mature, increasing demands are placed on our limited available resources to assist our clients and partners to put in place the regulatory, commercial and financial frameworks which will ultimately allow these contracts to be brought to an implementation stage.

Although PPPs remain confirmed as imperative in South Africa, subsequent to the 2010 FIFA World Cup, market activity has been very slow, both in finalising existing contracts and in bringing new contracts to market. For example, in the health sector, where five major hospitals were identified by the government as PPPs in 2009, the procurement process has yet to start on any of these, notwithstanding the urgency to improve hospital conditions.

In Eastern Europe, for both financial and political reasons, there was a reduction in the number of new PPP contracts in our targeted transport and power markets.

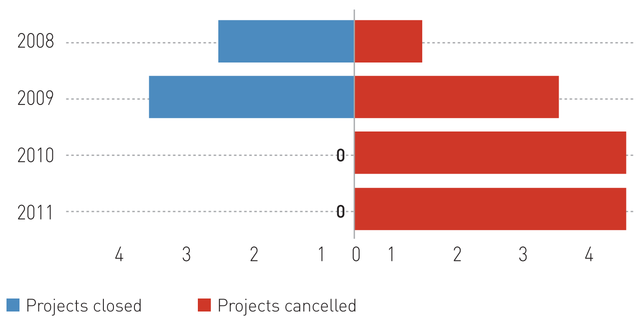
Market review

Transport

Central and Eastern Europe

As a result of the aftermath of the global financial crisis and political developments during calendar 2010/11, Intertoll Europe's traditional market of developing and operating PPP motorway infrastructure concessions in the Central and Eastern European (CEE) region remains depressed with no improvement in market conditions now realistically forecast until calendar 2012/13. The graphic below illustrates this trend with no PPP infrastructure concession motorway contracts in the region achieving financial close during 2010 and none forecast to achieve close in 2011.

Number of projects closed and cancelled – Central and Eastern Europe



OPERATIONAL REVIEW – INFRASTRUCTURE CONCESSIONS CONTINUED

However, budgetary constraints and a future reduction of available funding from the European Union for motorway construction are forecast to result in a reversal of this trend. Poland is expected to lead this change and is scheduled to come to market with at least three contracts by 2013. Other countries within the CEE are expected to follow.

A number of countries, including Slovenia, Bulgaria and Hungary, are scheduled to come to market with electronic toll collection (ETC) truck tolling contracts within the next two to three years.

Intertoll Europe continues with a strong order book and, due to forecasting the depressed market conditions in its earlier business plan, it has pursued alternative markets. These include the upgrade of motorways to tolling standards in Balkan countries and undertaking sub-contracts for tolling operations. One such contract was secured in April 2011.

Africa

The second phase of comprehensive toll road operations and maintenance (CTROM) re-tenders in South Africa was completed in May 2011. Intertoll Africa was successful in securing the N2 North (KwaZulu-Natal), N1 South (Gauteng/Free State) and N4 West Magalies (Gauteng) contracts. The Mariannhill toll plaza (N3, KwaZulu-Natal), Tsitsikamma route (N2, Eastern Cape) and N2 South (KwaZulu-Natal) CTROMs are expected to be re-tendered from calendar 2012.

The N1 – N2 Winelands toll road situated in the Western Cape and the Wild Coast toll road situated in KwaZulu-Natal/Eastern Cape remain focus contracts for the business. New operating contracts are also at an early stage of development in our targeted countries of West and East Africa and Mauritius.

In addition to the above, a partnership with the Zimbabwean National Roads Administration (ZINARA) was secured. Through this PPP, a loan in excess of $200 million was secured for Zimbabwe from the Development Bank of Southern Africa to fund the rehabilitation of the major routes from Plumtree to Harare and Harare to Mutare. Group Five will lead the construction works (valued at R1,4 billion) while engaging closely with local contractors and suppliers. In addition, Intertoll will manage the toll collection and operations on these routes.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Concessions		
The group's strategy is to progressively expand its concessions portfolio in transport, power, water and real estate. **Momentum of concession and PPP contract awards is expected to increase over the next two years.**	The team is conservatively optimistic about securing a number of material awards in F2011.	Group Five submitted 13 responses to requests for proposals (RFPs) in the past two years which have provided a spread of contracts in different stages of maturity. Evaluation delays were experienced, although there is now a positive indication that evaluations will proceed in the year ahead.
Development of independent power projects (IPPs) in South Africa and Eastern Europe.	A key challenge in South Africa is the clarification of the regulatory framework required to implement bankable purchase and operating contracts.	The South African IPP and renewable energy market has been delayed due to a lack of clarity on regulations and tariffs. The group is developing two IPP power contracts in South Africa and Eastern Europe.
The South African government has identified the health sector as a priority focus for the development of PPP contracts.	Group Five is well placed through the solid consortia we have formed for this sector.	Hospital contracts are now anticipated to be tendered in calendar 2012.
South African public building PPPs.	The group's concessions knowledge and its construction capabilities are expected to position the group competitively.	There have been several process and adjudication delays. As disclosed on the South African national PPP unit contract list, Group Five-led consortia were awarded preferred bidder status on two contracts.
Demand for water-related contracts is expected to increase over the next few years, in particular at municipal level.	A key challenge for water markets in Africa is a clarification of the regulatory framework required to implement bankable purchase and operating contracts.	Water contracts have been slow to market, although two contracts are being considered in the Southern African Development Community (SADC) region.

Key focus areas	Desired results	Status
Transport		
Intertoll Europe		
Secure the Polish electronic truck toll contract.	Successful award after pre-qualifying in April 2010. Tender submitted by August 2010.	Our consortium withdrew from the tender process along with a number of others due to unrealistic timeframes and unacceptable risks in the contract documentation. The contract was awarded to a European company in November 2010.
Position for the next major PPP infrastructure contract to be targeted by Intertoll Europe.	Successful positioning when contract comes out, scheduled for the first quarter of F2011.	We are well positioned and involved in the process of the upcoming PPP infrastructure contracts in Poland. A strong consortium was created to tender for these contracts. However, the tender process was delayed by the Polish government by 12 months.
Secure government support for concessions contracts post elections in Slovakia.	Succeed in closing the D1 contract during F2011.	The new coalition government cancelled all PPPs which had not yet achieved financial close in the third and fourth quarters of F2011. This included both D1 concessions. Our consortium was the preferred bidder on one of these.
Intertoll Africa		
Secure a concessions contract for Intertoll Africa.	Target N1 – N2 Winelands as a priority.	Our consortium was selected as one of two bidders to submit best and final offers (BAFOs). Final offers are due at the end of July 2011.
Continue to improve our BBBEE rating.	Achieve Level 2 status.	Level 2 status achieved. Ongoing activities to maintain and enhance this position.
Grow the Intertoll Africa business over-border.	Secure a confirmed position on at least one African contract.	Long term operating contract in Zimbabwe signed. New contracts being targeted in West and East Africa and Mauritius.
Position Intertoll Africa effectively for the CTROM contract re-tenders.	Selected as a winning bidder on CTROM contract re-tenders.	Successfully secured the N2 North (KwaZulu-Natal), N1 South (Gauteng/Free State) and N4 West Magalies (Gauteng). Targeting further CTROM re-tenders in South Africa during calendar 2012.

OPERATIONAL REVIEW – INFRASTRUCTURE CONCESSIONS CONTINUED

Financial overview

	Year ended 30 June 2011	Year ended 30 June 2010
Revenue (R'000)	522 870	557 227
Total operating margin (%)	14.0	15.4
Core operating margin (%)	14.0	15.1

The segment delivered pleasing results in the year under review despite the government's cancellation of the D1 (Slovakia) project, which was a focus contract at the time of setting F2011 forecasts. The strong performance was mainly as a result of an acceleration of the A1 Phase 2 (Poland) project roll out programme and mild European winter conditions.

Revenue, which consists primarily of fees for the operations and maintenance of toll roads, decreased by 6% from R557,2 million to R522,9 million. Despite this, the core operating profit margin decreased only slightly from 15% to 14%, with core operating profit of R73,2 million (2010: R84,0 million). In addition, the segment also recorded fair value upward adjustments of R33,2 million (2010: R13,5 million) on its investments in its Eastern Europe concessions businesses.

Material issues within the business and how these have been managed

Concessions

Adoption of the PPP model

Although the benefits of PPP models are accepted across the world, delays in contract delivery in emerging economies occurred due to a lack of sound regulatory arrangements, with political issues also negatively impacting PPPs in Europe.

Against these challenges, Group Five is well positioned, has the tolerance and long term strategy to tender on and innovatively tackle the major PPP opportunities currently underway or anticipated in our target geographies of South Africa, the rest of Africa and Eastern Europe and in our core target sectors of renewable energy contracts, power plants, new building and hospital contracts and major toll motorways.

Effective human capital management

Our targeted contracts require substantial teams to prepare the technical, environmental, legal and financial submissions. Unforeseen delays continue to be experienced in the rollout of these contracts, particularly in relation to public sector matters. A key challenge for Infrastructure Concessions is therefore to manage our resources efficiently within the context of delays which severely influence the optimal allocation of our limited skilled resources.

By targeting selected contracts with the highest probability of implementation, we have managed to build a portfolio of contracts in various sectors and at various stages within their lifecycle to optimise the opportunity cost of allocated resources.

Geographic and sector spread and focus

The business has qualified and submitted, or is in the process of reviewing, proposals for PPPs in a number of African countries, including Uganda, Kenya, Ghana, Mozambique, Mauritius, Zambia, Namibia and Zimbabwe.

The contracts, as well as their regulatory framework, are unique to each country and sector and require a particular approach in each case. Our established risk management system allows us to manage these potential risks.

Transport

European politics

The last two years have produced a change in political affiliations with nationalistic political parties being voted into power in a number of CEE countries. These political parties have campaigned against foreign domination of certain markets with PPP concessions being one of the areas perceived to be in the domain of foreign players and financial institutions.

This has been particularly evident in Hungary (where three of Intertoll's major contracts are located), Slovakia (which resulted in the cancellation of all contracts in the PPP motorway programme which had not achieved financial close by the third quarter of 2010) and the Czech Republic (which had planned four motorway PPP concessions and was a target area for Intertoll).

To limit risk, Intertoll has been cooperating with our concessions partners to ensure that our performance as concessionaire and operator is beyond reproach.

Diversification

Over the last two years, Intertoll has been cautiously diversifying its business activities and scope to mitigate the risk of adverse developments in specific markets or countries.

The diversification approach has been threefold:

- **Geographic**
  While South Africa and the European Union (EU) still constitute the preferred operating regions, increased emphasis has been placed on investigating new countries, particularly Mauritius, Zimbabwe, Zambia, Ghana, Kenya, the Balkans (Macedonia, Kosovo and Bosnia), Turkey and certain of the Commonwealth of Independent States (CIS) countries.

  The business was successful in securing a significant new long term operating contract in Zimbabwe as a result of these activities.
- **Scope of services**
  In addition to the core road concession business, Intertoll has been actively investigating alternative projects related to our current business. These include the tolling of existing motorways where this is financially viable for countries outside the European Union.

  Tolling sub-contracts, such as those incorporated into the Polish electronic toll collection (ETC) truck toll contract, are also being pursued. Intertoll was successful with the first of these after securing the manual toll operating project for a 100 kilometre section of the Konin-Strykow motorway in Poland.
- **Tolling technology**
  Investigations continue into the viability of developing our own tolling systems. Work has successfully commenced on the development and testing of our own manual toll collection system in South Africa.

Partnering

The currently depressed market conditions in the core European PPP market could potentially create a risk to Intertoll's preferred partner status with many of the major construction companies due to new market strategies being adopted by other tolling industry players. This risk is being mitigated through continued interaction with our partners and by constantly adding value to their activities.

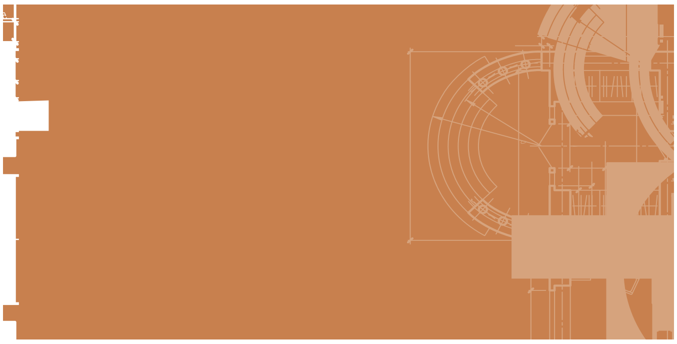
Key achievements

- In South Africa, two major concession projects were adjudicated and preferred bidder status conferred. During the year, the Group Five-led consortia were selected as the winner on both the new headquarters for the Department of Land Reform and Rural Development and the new City of Tshwane municipal offices
- The Group Five consortium was selected as one of the two final bidders to submit best and final offers for the R10 billion N1 – N2 Winelands toll road concession in the Western Cape
- Intertoll Africa secured a new long term operating contract in Zimbabwe for operations and maintenance of the national toll road network on behalf of the Zimbabwean National Road Administration (Zinara). In addition, Intertoll Africa secured a new eight-year operating contract for the N1 South (Johannesburg to Bloemfontein) toll road route in South Africa
- Intertoll Europe successfully continued with the timeous roll out of the second phase of the A1 concession in Poland, with a target date for opening of January 2012. The business also successfully secured a three-year operating contract for a section of the manual tolling system component of the Polish national electronic truck toll system
- In Europe, we are well advanced with putting together a PPP for a gas-fired 115 MW power plant in Bulgaria

Looking forward

Key focus areas for F2012	Desired results
Concessions	
Secure at least two concessions.	Finalise negotiations and obtain financial close on at least two contracts in F2012
Tender on no less than two major PPP requests for proposals.	Submit tenders on at least Mauritius Port Louis bypass toll road, Kalahari Concentrated Solar Project and Baragwanath Hospital
Reduce development costs.	Manage and develop strategic relationships with selected partners, consultants and advisors and optimise resource allocation between contracts, teams and countries
Ensure a geographic spread of contracts.	Continue to develop the contracts being pursued in Eastern Europe, while also developing new PPP opportunities in southern, East and West Africa in line with the group's strategy
Transport	
Intertoll Europe	
Phase 2 of the A1 project in Poland.	Achieve an efficient on-time and on-budget opening in the second quarter of F2012
Electronic toll collection (ETC) development in Poland.	Conclude negotiations with Gdansk Transport Company and the client to award full implementation of the ETC operation of the A1 to Intertoll
New project development in Poland.	Conclude a consortium agreement with preferred partners for new PPP projects, secure pre-qualification and position the consortium as a potential preferred bidder
Manual tolling sub-contracts in Poland.	Commence on-time and on-budget tolling operations of the secured A2 tolling sub-contract and secure at least one additional sub-contract on acceptable commercial terms
Intertoll Africa	
New project roll out in Zimbabwe.	Focus execution resources on implementation of a new long term operating contract in Zimbabwe, with commencement of operations targeted for the first quarter of F2012
N1 – N2 Winelands toll road concession, South Africa.	Secure this concession with our partners, including the long term operations and maintenance and tolling equipment supply contracts
Tolling upgrades and operations.	Pursue possible opportunities in the Balkans and position Intertoll to secure one if these proceed
Truck toll ETC projects.	Position Intertoll to be part of a consortium with preferred partners and a significant contender for ETC projects in our target geographies
Tolling technology platform.	Become an integrated toll system supplier and operator through selective proprietary technology development, acquisition and key industry strategic alliances

Property Developments



R million	F2011	F2010
Revenue	32	35
Total operating loss	(13)	(11)
Core operating loss	(11)	(8)
Core operating margin (%)	–	–
Fair value profit	16	–
Developments in progress	67	73
Employees (pax)	7	8

This segment contributed 0.3% (2010: 0.3%) to group revenue. As it suffered a loss, it did not contribute to group total operating profit in either the current or prior year.

Property Developments develops, owns and services A-grade property assets in South Africa. It focuses on the commercial, industrial and retail markets and selected developments in the residential market.

Market review

Property Developments operates in the South African market. The property sector in South Africa continued to encounter adverse market and operating conditions. Stringent regulations imposed on financial institutions to reserve capital have impeded their ability to fund developments. This often prevents developers from receiving the necessary funding for developments.

In addition, vacancy rates remain high, resulting in lower rental yields. Interest rates are set to increase towards the end of the 2011 calendar year, with the outlook for the sector to remain depressed for the immediate term. The only sectors showing some growth are the affordable housing sector and the retail sector where vacancies are on the decline.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Exit remaining residential portfolio assets in a commercially attractive and sound manner.	To be completed by December 2010.	Positive progress achieved to date, although we have not fully divested of the portfolio as we are committed to realising optimal value. This remains a priority.
Assist with securing tenants across all real estate sectors on Waterfall Farm.	Construction to commence on the Waterfall Farm by January 2011 with the intention of leveraging the construction and materials supply arm of the group.	Construction has commenced. During the period under review, a decision was taken at shareholder level to exit our equity participation for value in line with group returns. We continue leveraging construction and material opportunities.
Secure and conclude three new significant deals during F2011.	Convert acquisitions into development with fee generation and profitability.	Successfully achieved, with Crystal Park, South African Property Opportunities (SAPRO) and Oxford Road concluded. Both SAPRO and Crystal Park are fee-earning transactions.
Commence with construction on the newly-signed Crystal Park affordable housing contract.	To commence construction by the second quarter of calendar 2011.	Infrastructure works are now officially underway, with top structure construction due to commence in August 2011.
Commence construction on one of our located land sites in the Sandton central business district.	To commence construction in the first quarter of calendar 2011.	Due to adverse market conditions, this development will most likely be delayed until F2013.

Financial overview

	Year ended 30 June 2011	Year ended 30 June 2010
Revenue (R'000)	31 789	34 644
Total operating margin (%)	(40.3)	(30.9)
Core operating margin (%)	(33.2)	(23.2)

Property Developments' performance remained in line with expectations as the segment continued to progress its strategy of disinvestment from the residential sector in favour of securing A-grade commercial and retail property development positions in South Africa.

Therefore, as anticipated, Property Developments' revenue decreased by 8% from R34,6 million in F2010 to R31,8 million. The business incurred a core operating loss for the year of R10,6 million (2010: R8,0 million). The segment also recorded fair value upward adjustments of R15,7 million (2010: Rnil). The largest portion of this fair value related to the group's investment in property developments. On 1 November 2008 the group acquired a 15% interest in the Waterfall Development Company (WDC). During the current year, the group disposed of its interest, which resulted in a fair value upward adjustment of R13,3 million and net proceeds of R133,3 million.

Material issues within the business and how these have been managed

Securing income-earning contracts

In October 2010 the group secured the role of investment manager of an offshore listed property fund. The fund, South African Property Opportunities (SAPRO), is invested in a mixed portfolio of assets in South Africa. The total market value of these assets was externally valued at approximately R1,4 billion at December 2010.

Our role as investment manager is to ensure a return to shareholders through managed development and sale of the asset portfolio. Selected assets will be fully developed, whilst others will be made available for sale once the salient rights and zonings are achieved in line with market cycles.

Group Five is remunerated on a monthly basis and has specific incentives linked to returns for SAPRO shareholders.

In addition, the team worked closely with the Group Five Motlekar social and affordable housing joint venture to facilitate the structuring of the Crystal Park affordable housing contract in Gauteng. Construction of a 50 unit show house complex on the site is now underway. Developments to date have been positive, with marketing initiatives due to start shortly. Property Developments will earn a development fee, whilst the construction revenue will be reported through Building and Housing.

Positioning for core future development contracts

During the year, a prime located land parcel in the Melrose area in Johannesburg was secured. With zoning rights anticipated to be obtained before the end of F2012, and with the ability to develop up to 65 000 square metres of bulk on the site in a phased approach, this project contributes significantly to our portfolio of land holding for long term development and ownership.

During the year, it was decided to divest of our equity in 114 West in Sandton. Although we invested in line with our strategy of long term investment, market conditions led to the partners changing the terms of the investment to an individual office sale scheme, which does not offer long term returns. Our decision to divest provided upfront returns and additional headroom to secure further opportunities in the short term.

Realising value from our Waterfall Farm investment

While construction has officially commenced at the Waterfall Farm in Gauteng, the overall development continues to mature at a slower than anticipated basis.

A decision was taken by all the shareholders of the Waterfall Development company to formally exit its equity participation in the Atterbury fund, the developers of the Waterfall Farm. This generated a fair value profit of R13,3 million.

Our preferred construction position for all infrastructure and top structure works as well as specific material supply on the contract remains intact.

OPERATIONAL REVIEW – PROPERTY DEVELOPMENTS CONTINUED

Project conversion to development and/or sale

The conversion of land assets into above-ground developments continues to be a challenge. We remain focused on achieving this as and when key tenants can be identified and engaged on a long term basis. Our assets are situated in prime locations and remain ungeared.

The divestment of our existing residential portfolio has also taken longer than anticipated. This was largely due to the group's strategy of maximising value during the current negative cycle. To achieve returns during this cycle while sales at appropriate returns have not been possible, the group has rented its units on hand. Tenancy levels remain high, with revenues matching expenses.

Property market cycle

Careful and considered management of the downside risks in the real estate sector has played a vital part in achieving the reported results.

With interest rates set to rise towards the end of calendar year 2011 and with an expected slow and protracted recovery, management will continue to focus on managing its portfolio transition strategy through the downturn to preserve current asset values. With a diversified portfolio of fee-generating work, combined with a longer term equity positioning, the segment is positioned for profit growth in the longer term.

Key achievements

- We secured the role of investment manager of an offshore listed property fund, South African Property Opportunities (SAPRO)
- A prime located land parcel in the Melrose area in Johannesburg was secured
- Construction on Crystal Park affordable housing project was started earlier than anticipated with the construction of a 50 unit show house complex

Looking forward

Key focus areas for F2012	Desired results
Exit remaining residential portfolio assets in a commercially attractive and sound manner.	Dispose of assets at the highest value possible while taking cognisance of current tenant levels and market recovery
Secure and conclude three new significant deals for the segment during F2012.	Convert land acquisitions into development fee generation and profitability to match vacancy decline in line with a gradual market recovery
Manage assets effectively and return target value for SAPRO shareholders through progression of zoning rights and through sale of certain identified assets.	Achieve target hurdles by December 2011 and progress planning and zoning processes to satisfaction of client
Rightsize team through expansion to realise and effectively manage secured and pipeline opportunities.	Grow team through additional resourcing in parallel with secured opportunities to maximise value for the group

OPERATIONAL REVIEW – MANUFACTURING

R million	F2011	F2010
Revenue	868	866
Total operating profit	26	87
Core operating profit	26	82
Core operating margin (%)	3	10
PP&E*	160	163
Capital expenditure	32	23
Employees (pax)	1 175	1 166

* *Property, plant and equipment and investment property.*

John Wallace

Manufacturing contributed 9.4% (2010: 7.6%) to group revenue and 5.2% (2010: 9.9%) to group total operating profit.

Fibre Cement manufactures a range of fibre cement roofing and cladding products which are used in residential and industrial building applications.

Steel manufactures a range of steel products which are used in applications within the construction industry, as well as spiral-welded steel pipes used for bulk water transfer schemes.

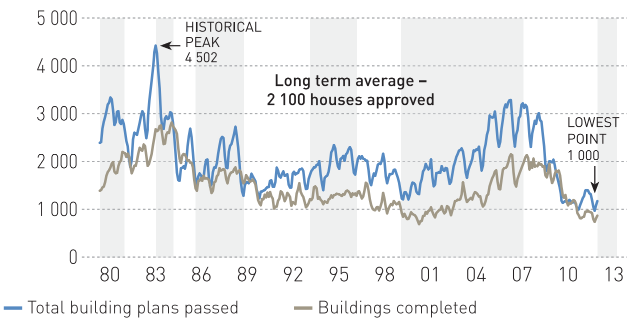
Market review

Fibre Cement

The South African market has remained particularly challenging throughout the financial year as the joint forces of one of the deepest building recessions on record and a continued tightness in bank credit drove volumes and pricing down.

Everite's core market is in the residential sector, which is in one of its most severe downturns (as can be seen from the graph on the right). As building plans passed is a leading indicator of future activity, the expectation is that the residential market will remain subdued for at least the next six to 12 months. The number of buildings completed (larger than 80 m²) is at its lowest point in the past 31 years. The trend for building plans passed, which indicates future activity, is also at a low.

Building plans passed and buildings completed – number of houses larger than 80 m² (three-month moving average)

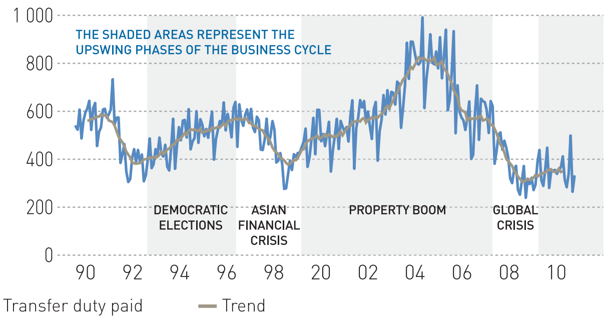


Source: Statistics SA; MFA database.

OPERATIONAL REVIEW – MANUFACTURING CONTINUED

However, it does appear to indicate a bottoming of the decline. The graph below depicts transfer duty paid in constant inflation accounted terms and indicates that the combined effects of the National Credit Act and the global financial meltdown coincided to drive activity in the building market to its lowest point in two decades.

Transfer duty paid in real terms (R million at constant 2010 prices)



Source: Deeds office; Treasury; SARB; MFA database.

Everite also serves the public sector by providing roofing material for low-cost housing and complete modular structures for transitional and temporary solutions for government. Although this sector is less affected by the market downturn, government has missed its committed housing delivery targets, which impacted the number of houses delivered.

The construction downturn has also left the industry with significant over-capacity, which has resulted in pressure on pricing and the potential of business failures and market consolidation.

Market review

Steel

The Steel business unit also suffered from volume and margin pressure which was compounded by the reinforcing steel shortage created by issues at Mittal's Newcastle plant. The shortfall is only expected to be recovered by August 2011. In the interim, many players were forced to import steel to prevent operational delays on construction sites. Steel pricing climbed steadily during the second half of F2011, reflecting the global economic demand and the supply imbalance in South Africa.

The combined impact of reduced activity, price erosion due to Rand strength, growing import competition and an oversupply of locally manufactured products created the perfect storm within the manufacturing sector for building materials. Volumes and margins fell throughout the second semester as the sector attempted to survive through cost control and efficiency gains where possible.

Financial overview

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

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

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

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

Group Five Pipe benefited from increasing – although still erratic – demand for bulk water transport systems. The group's Structural Steel business unit suffered from low volumes, increasing steel prices and poor results on one contract, which materially affected the cluster's performance.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Fibre Cement/ABT		
Continue to implement process improvements within the Fibre Cement plant, as efficiency gains will be a pre-requisite to maintain margins.	Reduce the cost of production, thereby lowering the breakeven point for the business to ensure margin retention.	Good progress across all factory disciplines led to meaningful cost savings and efficiency gains. This focus area continues to receive attention due to the constant pressure on margins.
Develop ABT market to include focused private market opportunities in South Africa and the rest of Africa for mining and building contracts.	Shed the dependence on pure public sector contract delivery, as well as increase the overall returns from ABT.	Received the required approvals for our permanent structures and progressed to marketing the new offering.
Service excellence through using our developed supply chain model to better serve the fragmented building merchant market.	Protect Fibre Cement from growing import volumes due to the continued strength of the Rand.	We have one of the better service records with our highly fragmented client base and have achieved our "cost to serve" targets.
New product development to create alternative products and structures.	To maintain returns as traditional volumes remain depressed and to position the businesses for growth as the economic recovery takes hold.	We developed a new export range of products specific to country needs, with some early success. We also have a number of new developments in the planning stage.
Seek additional technology partnerships.	Grow our suite of ABT structures, as well as improve current processes to increase overall returns.	We have very successfully developed new international partnerships in Asia, Australia and South America.
Steel		
Improved factory and process controls (physical and ERP upgrades).	Reduced cost of conversion and greater factory recoveries.	Achieved success within BRI and Group Five Pipe, but have struggled with the complexity of three business streams in Structural Steel with reduced market activity impacting economies of scale.
Improved steel procurement practices through optimising hedging opportunities.	Optimised stockholding (while cognisant of working capital levels) in a dynamic pricing environment to protect from margin erosion when steel prices fall and to maximise returns when prices rise.	Reinforcing volumes have grown, which allowed volume leveraging on price where possible. However, the market steel shortage negated many of our efforts as steel had to be imported at short notice.
Develop and grow external client focus based on success of inter-group supply.	Grow business unit volumes and returns due to improving economies of scale as we evolve from an internal transfer pricing model to generating acceptable commercial returns through both internal and external supply.	Work was secured externally. However, excess supply of reinforcing and structural steel led to margins coming under extreme pressure, which negated the expected gains from volume growth.
Grow and develop the mesh business into new market segments.	Further develop the commodity range of products offered, which generates a more predictable return to a pure rebar business.	We acquired additional highly automated capacity and will commission the new equipment in the first quarter of F2012. This will enable entry into a counter-cyclical industry.
Improve health and safety in each business unit.	Achieve group targets.	Disabling injury frequency rate (DIFR) improved across the cluster.

OPERATIONAL REVIEW – MANUFACTURING CONTINUED

Material issues within the business and how these have been managed

Rand strength continued to erode margins

The Rand remained stubbornly strong during the year, with a relative strengthening of around 11%. This was compounded by our internal cost inflation, high wage demands, excessive electricity increases and a cement industry intent on recovering volume declines through price increases.

The challenge to the South African manufacturing industry is to remove cost through efficiency gains and technology improvements in an attempt to compete with import competition. We have mostly succeeded in maintaining our market share, although new importers continually attempt to gain or grow their market share. Strategically, we have continued to improve our service offering and product quality to ensure that price is not the key driver for securing material. We hold strategic stock and have the ability to supply complex orders to any distributor within three days.

Rand/US Dollar – June 2004 to June 2011 (daily average)

Source: SARB; MFA database.

Equipment upgrades as market conditions vary

Our plant capacity of certain products at our Fibre Cement business Everite was under pressure during the year as the demand for flat products grew, while profiled roofing products diminished.

As the factory was built many decades ago, we started to upgrade our factory from 2006 with our first complete new line built. We are progressively upgrading all the factory equipment with internal skills.

Over the past four years, we have improved the output of our flat sheet machines to ensure we have quick change capabilities to manufacture the lower volume range of fibre cement products. In the first quarter of F2012, we will complete an upgrade on our first multi-use machine. This will further reduce complexity and the cost of manufacture at Everite.

New competitors enter the market

During the financial year, a new Chinese competitor entered the South African fibre cement manufacturing market and an over-border competitor introduced non-asbestos technology in an attempt to penetrate the South African market.

To counter the possible impact of this, Everite introduced a highly competitive export-orientated product range to further increase its base outside of South Africa in neighbouring markets. Early indications are positive, with repeat orders having been secured and growth in exports. The business is also focusing on its quality of service to further entrench brand loyalty around our range of products.

The steel pipe market also experienced a new entrant within the spiral weld sector. The impact has been fairly immediate, with tender margins being eroded. However, we are securing good orders with our product differentiators, such as pipe design capability and several coating and lining alternatives.

Within the reinforcing and fabricated steel markets, business failure in the industry is more prevalent as margins and volumes continue to fall. We will be downsizing our business where necessary.

Waste reduction to limit environmental damage and improve returns

The technology team has focused on the closure of the historic waste dump at our Klipriver site. As volumes of waste have been steadily falling, we are now in a position to close and rehabilitate the dump. Our focus on waste minimisation through our operations over the last eight years has resulted in a decrease in the cost of waste treatment, with the resultant decrease in the cost of production. With the dump closure and rehabilitation, the very last of the asbestos legacies at Everite will be finalised.

Troublesome contract in Steel business unit

The Steel business' operating performance was adversely impacted by a poor contract where significant once-off non-recoverable costs were incurred on one contract. Structural changes to mitigate a future occurrence were put in place.

Key achievements

- We acquired a new, highly automated, mesh manufacturing line within the BRI steel business unit which will be commissioned early in F2012 and will enable the business to enter an exciting and growing counter-cyclical market to reduce its dependence on the highly cyclical construction market
- We upgraded our coating capability at Group Five Pipe, which has made us market leaders in this particular process
- During the year, the Advanced Building Technologies (ABT) temporary unit product offering was improved, with a new permanent structure introduced. The business is delivering on its two-pronged strategy of growing the demand for fibre cement volumes and creating good returns to shareholders. The sales team is focusing on developing the product for application in the private sector and has developed the structure to support this drive

Looking forward

Key focus areas for F2012	Desired results
Fibre Cement/ABT	
Develop and grow the Fibre Cement export market into sub-Saharan Africa as local competition intensifies and erodes local volumes.	Increase volumes as local market remains weak to ensure optimal factory recoveries
Further develop the ABT business within export and private markets to grow returns from the unit and to increase off-take of Fibre Cement products.	With the technology well proven and product quality ensured, we expect to grow returns from this business unit
Create greater market penetration with newly-developed Fibre Cement products.	Market growth will create greater economies of scale through the manufacturing process, resulting in improved manufacturing recovery and margins
Steel	
Reposition our Steel business to generate improved returns as the current trading conditions and margins remain unattractive.	Initially shrink the business to balance market volumes to installed capacity to create acceptable returns in recessionary markets Review the business to ensure an optimal structure

OPERATIONAL REVIEW – CONSTRUCTION MATERIALS

R million	F2011	F2010
Revenue	434	492
Total operating (loss)/profit	(68)	20
Core operating (loss)/profit	(68)	18
Core operating margin (%)	–	4
PP&E*	575	1 175
Capital expenditure	16	42
Employees (pax)	557	804

* *Property, plant and equipment and investment property.*

John Wallace

Construction Materials contributed 4.7% (2010: 4.3%) to group revenue. As it suffered a loss, it did not contribute to group total operating profit in the current year.

Construction Materials consists of a number of business units which produce sand and aggregates, readymix and extenders, and mining crushing services.

Market review

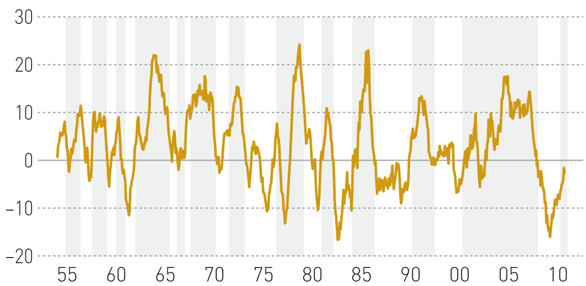
Aggregates and readymix

The markets for both aggregates and readymix were extremely trying in F2011. The economic slowdown was aggressively felt, as these businesses typically do not have a large geographic reach due to their low selling prices and high cost of transport. The excess market capacity which was installed leading up to the peak of the super construction cycle in 2007 is mostly still in place. This exacerbated the already pressured volumes and margins as there is an over-supply of material and resources due to a depressed construction market.

As outlined at interim results time, the incidences of dump rock entering the market continues to increase, with mining companies selling off their dumps mostly through tender bidding. Most recently our East Rand market was impacted by the sale of the Pamodzi dumps to crushing operators. The legislation defining these activities as mining remains unclear and many of these players slip under the radar of the onerous mining legislation. This continues to hamper both pricing and available market.

The graph below demonstrates that the cement industry, which is a relatively good gauge of activity in the construction materials market, is currently going through the deepest recession in the past 57 years. Although cement can be profitably distributed countrywide from a few strategically located plants, aggregates and readymix are only distributed regionally. These markets have therefore been more negatively impacted.

Cement sales annual percentage change 1952 to 2010 – six-month moving average (annual percentage change)



Source: SARB; SACPA; C& CI; MFA database.

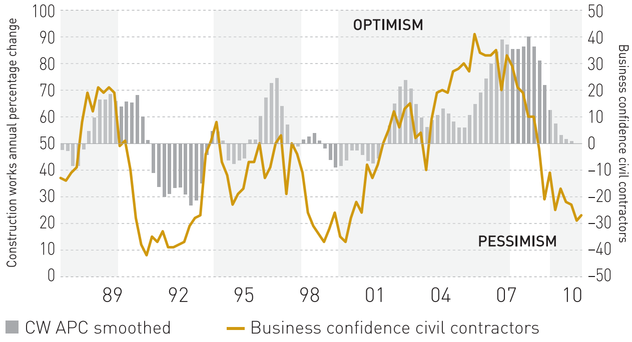
A large portion of our material finds its way into the civils market, which is also experiencing a severe market downturn on the back of the large infrastructure contracts which are now being concluded. There were also only a few sizeable awards during the year. The graph on the right illustrates how confidence levels have plummeted in the civils sector, coupled with the significant fall in actual construction works. This has dragged the entire supply chain for this sector down, including both aggregates and readymix.

Market review

Mining crushing services

The mining crushing services business continues to provide opportunities to employ under-utilised crushing and mining assets during the downturn. However, this market is also suffering from low margins due to companies pricing at lower levels in an attempt to prevent their equipment from standing idle. As such, the tender activity around each contract has increased with more players looking for work and debasing margins. Clients appreciate the over-supply of equipment and the overall market conditions and contracts are therefore typically short term in nature with tough performance targets.

Business confidence civil engineering contractors and construction works annual percentage change (smoothed)



Source: BER; SAFCEC; SARB; MFA database.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Aggregates and readymix		
Further consolidate and rationalise plant within our fixed quarries.	Implement the correct plant in terms of market requirement and cost base.	Plant has been relocated and aligned to the current market demand. Where possible, plant was disposed of or moved to group construction contracts through our plant business.
Further re-engineer and reduce cost within all business units.	Ensure a cash earnings contribution throughout the downturn and position the business for when volumes recover.	Good progress made as plant is returned to original equipment specifications and process flows are de-constrained. This increased product throughput. Quarry yields were also improved to match product output to market requirements. Structurally, costs were removed throughout the cluster as well as significantly reducing central overheads.
Improve its service offering as a differentiator outside of price.	Maintain – and possibly grow – volumes in a declining price environment, without eroding pricing.	Some success was achieved in offering a higher specification product at elevated returns. However, the general decline in market conditions severely undermined gains.
Develop sustainable mine plans for our operations, while taking cognisance of reducing activities.	Ensure appropriate and commercially viable mining and dump recovery in all our fixed quarries.	Mine plans were revisited and quarry shaping and the accessing of ore addressed in line with agreed objectives.
Mining crushing services		
Further develop mine service contracting opportunities within South Africa and over-border.	Improve overall returns and keep assets employed during the downturn to mitigate carrying value impairments.	Three contracts reached the end of their contract period, with one new contract secured. We are looking at contract extensions on one of our haul contracts to fully recover our investment in plant.

OPERATIONAL REVIEW – CONSTRUCTION MATERIALS CONTINUED

Financial overview

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

The cluster experienced a particularly tough trading year, with volumes and prices depressed by the slow roll out of public infrastructure and current recessionary pressures in the residential property market.

In spite of aggressive cost reduction and process improvement measures taken, Construction Materials had to deal with the worst downturn for decades in the aggregates and readymix market.

A core operating loss of R68,2 million in F2011 against a core operating profit of R17,6 million in F2010 was reported, resulting in negative margins compared to the prior year's core operating margin of 3.6%.

During the year, the cluster was re-engineered and rightsized to survive the downturn and to create improved returns when the market recovers. Structural, management and operational changes were implemented and a detailed market validation and asset verification and valuation exercise undertaken. As outlined at interim time, an impairment of R550,5 million was effected. Refer to page 91 for more information.

During the last six months, process costs were reduced and efficiencies gained to limit the margin impact from depressed volumes and prices. A gradual recovery is expected over the next 12 to 18 months.

Material issues within the business and how these have been managed

The quality of fixed plant at quarries not conducive to achieving performance targets

The plant uptime in the first quarter of F2011 was particularly poor, with frequent breakdowns which negatively impacted our ability to serve a market already severely diminished by the construction downturn. During the second and third quarters, repairs and maintenance and plant rebuilds were undertaken to bring the equipment back to original specification. The number of plants was also reduced in line with the decimated market. This allowed the business to improve returns and plant uptime in the fourth quarter.

Further cost reduction by reducing overhead structure

The business was historically structured for volumes significantly above what the current recessionary markets provide. We have therefore had to restructure activities to create a more efficient business without affecting outputs. We are in the process of building a shared services structure across our Manufacturing and Construction Materials segments with one finance director overseeing both. We have also decentralised the mine site structures and resources to improve site administration and technical controls.

Reduce balance sheet gearing and interest cost

The cluster was highly geared at the end of the construction super cycle, with excess plant on lease, resulting in related interest costs. The model going forward will change to one where operating cash will be used to settle plant and equipment leases wherever possible to reduce gearing in a rising interest rate market. The focus is on positioning the business for the next upturn with as lean a balance sheet as possible.

Reposition mining crushing services business

We have identified the importance of obtaining crushing contracts earlier in prospective mine builds to ensure an entrenched position at a mine start up with good client relationships at the time of the mine commissioning. In line with this, we are working closely with our Engineering cluster due to their regular involvement at a mine's build stage. Similarly, we will work with our Civil Engineering cluster to secure contract crushing opportunities within the many new civils opportunities in road building, dams and other large contracts. Group Five will restructure mining crushing services in the new financial year for improved opportunities within our target markets.

Dump recovery redefining the aggregates market

The environmental pressure to rehabilitate several rock waste dumps in Gauteng is gaining momentum and will see the market change over the next five to ten years. A number of tenders are being adjudicated for waste rock recycling at a cost significantly below the cost of drill blast and haul within a typical stone quarry. Group Five is aware of these threats and opportunities and is working in a focused manner to protect our market and to grow our crushing business.

Key achievements

- Improved plant uptime – the primary and secondary crushing equipment was realigned to original specification, resulting in greater material output at reduced costs
- Risk of additional impairments was limited by reducing the quarry breakeven volumes through restructuring and cost minimisation within the drastically reduced volumes of the current recessionary market
- Building a flexible and mobile operating structure within the readymix division which has enabled a smaller team to move from plant to plant as market volumes dictate. This reduced the overall operating cost and the division's breakeven point

Looking forward

Key focus areas for F2012	Desired results
Bed down the new, refocused structure.	Complete outstanding appointments and settle the business at the reduced volumes. The shared services and decentralised strategy will result in further structural cost savings
Grow mining crushing services opportunities.	Fully employ any under-utilised assets and attempt to match contract life to plant availability. The restructured business will grow and develop new contracts and returns
Develop a more integrated offering.	Grow our asphalt business as a subset of our developing road building business and create a greater pull through from our existing quarries or mining crushing services opportunities
Evaluate structuring opportunities.	Aim to optimise shareholder returns through matching the operating and cost structure to the current market conditions. Evaluate any external approaches which seek to add value through merging or disposing current activities
Full Department of Mineral Resources (DMR) compliance throughout our mining operations.	All new order licences awarded and mining charter fully adopted

OPERATIONAL REVIEWS – CONSTRUCTION

Construction is the largest cluster in the group. It includes the business segments of Building and Housing, Civil Engineering and Engineering.

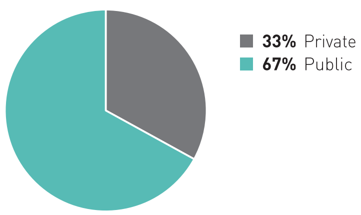
During the year, it contributed 79.9% (2010: 82.8%) to group revenue and 96.4% (2010: 79.3%) to group total operating profit.

Construction traded revenue and secured order book*

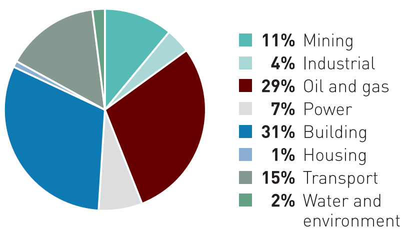
(R million)	Total	Building and Housing	Civil Engineering	Engineering
Year to 30 June 2010 (actual)	9 387	3 186	4 713	1 488
Percentage over-border	18	6	17	50
Year to 30 June 2011 (actual)	7 350	2 143	3 548	1 659
Percentage over-border	27	30	15	48
Year to 30 June 2012 (year order book)[1]	5 947	2 105	2 459	1 383
Percentage over-border	28	12	43	25
Full order book[2]	8 812	3 071	3 686	2 055
Percentage over-border	30	25	42	17

(1) Revenue to be executed in F2012 extracted from the group's full Construction secured order book.
(2) Revenue to be executed from 1 July 2011 based on secured Construction contracts only, ie the group's full Construction secured order book.*

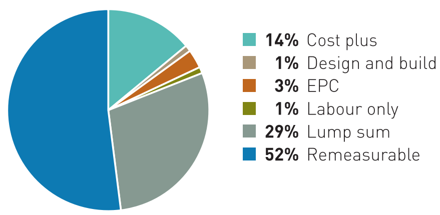
Private vs public Construction revenue
2011 – actual



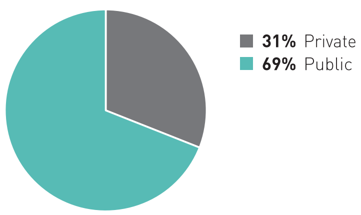
Construction revenue by sector
2011 – actual



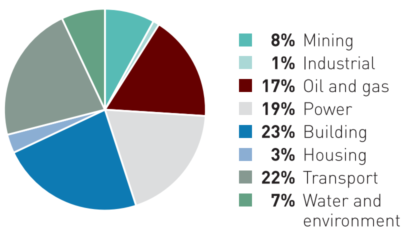
Construction revenue by contract type
2011 – actual



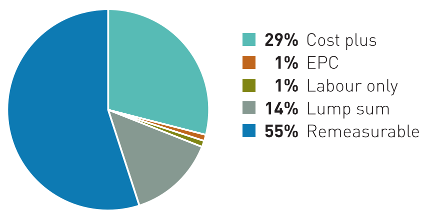
Full order book



Full order book



Full order book



* *Construction secured order book is the total value of Construction contracts formally awarded to the group which must still be traded, ie secured work to be executed by the group. It reflects Construction work only and excludes the contribution from the group's other clusters.*

Building and Housing

R million	F2011	F2010
Revenue	2 143	3 186
Total operating profit	137	237
Core operating profit	137	220
Core operating margin (%)	6	7
Current assets	651	776
One-year order book*	2 105	2 598
Employees (pax)	2 003	1 794

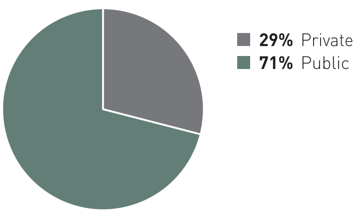
* *F2012 (F2011) secured order book.*

Paul le Sueur

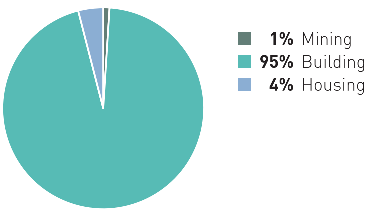
Building and Housing contributed 23.3% (2010: 28.1%) to group revenue and 27.4% (2010: 27.0%) to group total operating profit.

Building constructs a range of facilities, including public buildings and infrastructure, large, commercial and residential complexes, retail shopping centres and industrial premises. **Housing** is involved in the construction of large-scale residential and building contracts for the mining and industrial sectors, corporate and private/public sector housing developments and low-cost and affordable housing schemes.

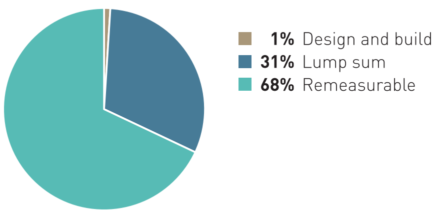
Private vs public Building and Housing revenue
2011 – actual



Building and Housing revenue by sector
2011 – actual



Building and Housing revenue by contract type
2011 – actual



OPERATIONAL REVIEW – BUILDING AND HOUSING CONTINUED

Market review

Public sector

As widely reported, the public sector spend in South Africa has been far slower than anticipated. Significant delays in the awarding of public private partnerships (PPPs) and conventional public sector tenders have been seen.

Against these challenges, Group Five was successful in securing contracts in the South African public sector market in different sectors. These include transportation contracts such as the Bus Rapid Transport and Integrated Rapid Transport contracts, hospitals, prisons, magistrates courts and affordable housing contracts.

Over-border, we have seen an increased spend in the public sector in Africa on real estate contracts, such as mixed-use developments through pension fund investments. We successfully secured retail and commercial building contracts with the government pension funds in Zambia. Although we are seeing increased competition over-border, we are comfortable that the group's experience in Africa and our established risk evaluation and management systems will enable us to compete effectively.

Private sector

The South African private building and housing market experienced a slowdown due to a lower uptake of tenancy in all segments of the market and far more stringent lending requirements from financial institutions. The revised ratio requirements of equity to debt in conjunction with enhanced pre-letting and sales percentages imposed on new developments have made project funding very challenging. Furthermore, there is increased competition and pressure on margins due to the excess construction industry capacity following the completion of large infrastructure contracts.

Our South African order book currently consists of a combination of retail developments, mine housing, industrial and commercial buildings and private hospitals. Although the over-border contribution to the order book is currently still low, our move into Africa during the year from a strong South African-only focus provides a solid start to further grow our international base. The quality contracts we have secured will enable us to increasingly diversify our geographic and sector income streams.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Integrate the KwaZulu-Natal and Western and Eastern Cape regions into one operating unit.	Enhanced economies of scale and a more competitive overhead structure.	The integration of our coastal business units into one business has enabled a more focused strategy in conjunction with enhanced economies of scale, flexibility of movement of resources between areas and a competitive overhead structure.
Pursue and secure PPP bids already submitted.	Secure at least two of the PPP bids submitted.	In collaboration with the group's Infrastructure Concessions segment, we were successful in our strategy in the buildings PPP market by achieving preferred bidder status on the Department of Land Reform's head office and the rebuilding of the Munitoria local municipality offices in Tshwane.
Expand our presence in over-border countries.	Ensure more geographic diversity, as spend has been particularly constrained in the South African market.	Strengthened and grew our position in Zambia and established our presence in Ghana and Nigeria.
Pursue and secure additional contract opportunities on the Waterfall Farm development in Gauteng.	Drive tenancy and feasibility pricing to secure additional tenancy for F2011.	Weak trading conditions in the commercial and industrial sectors due to lower tenant demand have delayed contracts. However, we have successfully completed a retail outlet and a new hospital as part of the Waterfall Farm development in Gauteng. We expect the rate of construction of new commercial buildings to increase during F2012.
Drive our own affordable breaking new ground (BNG) housing developments subsidised by government.	Break ground on two BNG opportunities in the first half of calendar 2011.	We anticipate starting construction of two BNG housing developments, the Waterfall Junction housing contract in Gauteng and the Lincoln Meade development in KwaZulu-Natal during F2012.
Deliver affordable housing contracts.	Partner with financial institutions, mining houses, fund managers and private land owners in affordable housing delivery, including bonded and rental stock.	Involved in affordable housing contracts in Benoni, consisting of over 4 000 bonded, rental and stand sales. The first units to be completed will be included in the order book for F2012.
Partner in the delivery of integrated BNG and rental stock developments.	Partner with provincial and local government and financial institutions.	Integrated development including bonded, rental and BNG units expected to start construction in the fourth quarter of calendar 2011. This consists of three large contracts in Vereeniging, Pretoria and Polokwane.
Strengthen multi-disciplinary capacity and skills by ensuring the appropriate mix of skills.	Secure more multi-disciplinary contracts.	Our team was strengthened in engineer, procure and construct (EPC) and design ability. This has positioned us strongly in this field of real estate development in Africa.
Ensure the most cost-effective overhead structure.	Increase our competitiveness in the current market.	Our overhead structure was reduced and streamlined in accordance with the downturn in the market. We achieved increased competitiveness without reducing levels of efficiency and service.

OPERATIONAL REVIEW – BUILDING AND HOUSING CONTINUED

Financial overview

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

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

Building and Housing revenue decreased from R3,2 billion (94% local) to R2,1 billion (70% local). Core operating profit declined by 38% from R220,0 million to R136,9 million, resulting in the overall core operating margin percentage decreasing from 6.9% to 6.4%. Although the margin declined, it is still at strong levels due to the completion of large contracts, as well as timeously and successfully focusing on securing new over-border and domestic contracts in public buildings and the educational and private healthcare sectors.

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

Material issues within the business and how these have been managed

Increased competition

The downturn in the Building and Housing market and excess construction capacity in the sector resulted in a dramatic increase in the level of competitiveness in the local market, with certain players accepting contracts at extremely low or negative operating margins to keep resources busy. We have instead focused our bidding strategy on securing contracts with higher barriers to entry. These include PPP opportunities and our re-entry into Africa. In the South African market, we continue to add value to our clients through innovative construction solutions focusing on cost improvement rather than reduced margins, ensuring both parties benefit.

Manage supply chain risk

A downturn in our sector leads to an increase in the potential for inferior delivery standards in our supply chain as suppliers need to reduce costs to remain competitive. This can lead to reduced quality and increased performance failure. The risk to the group is further exacerbated where sub-contractors are unable to secure performance bonds due to tight credit markets.

It is therefore critical to ensure from pre-contract and inception stage that strict risk procedures are adhered to. Our established systems and processes allowed us to manage risks in this regard. Post appointment, the quality and depth of expertise within our management and supervisors continued to ensure that contracts were delivered on time and within budget.

Manage risk in over-border countries

In an effort to offset the downturn in South Africa and following the completion of the 2010 FIFA World Cup programme where key resources were repatriated back to South Africa, we have re-directed our business towards re-entering the rest of Africa, while retaining a strong South African base.

Our return to over-border work provides us with increased access to contracts with enhanced returns. As over-border work often carries more risk, we have focused on adhering to the principles of our country risk procedures and ensuring the effective establishment of our structures, systems and resourcing. The strategy has been successful, with our operations in Zambia excelling from a contract execution perspective and our business development initiatives leading to three additional contracts in the country. In West Africa, our Building and Housing brand has been built in both Ghana and Nigeria. We have secured our first contract in Abuja in Nigeria and are in financial close on various appointments in both countries. It is anticipated that our African strategy will start to bear fruit in F2012.

Optimise opportunities in South Africa's rural areas

Although there was a reduction in new contract opportunities in South African cities in both the private and public sectors, we have seen improved opportunities in rural areas. To capitalise on this, we have:

- Redesigned and improved our systems to ensure early information in respect of planned contracts
- Used our mobile resources which have the ability and expertise to operate and execute logistically challenging contracts in rural areas. This has allowed us to access improved opportunities in an extended local market

EPC and design-to-deliver construction

One of our strengths in the current market is our growing expertise in engineer, procure and construct (EPC) and design-to-deliver construction. This has positioned us well, particularly in supporting the group's position in the private public partnerships (PPPs) market. In line with this, we were declared as preferred bidder on two PPP contracts.

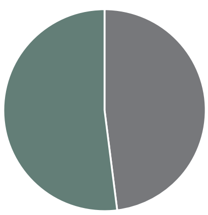
Key achievements

- Together with the Infrastructure Concessions segment, we achieved preferred bidder status on the Department of Land Reform's head office and the rebuilding of the Munitoria local municipality offices in Tshwane
- We strengthened and grew our African base through an expanded position in Zambia and establishing a presence in Ghana and Nigeria
- We were awarded a number of affordable housing contracts
- We improved our offering in engineer, procure and construct (EPC) and design ability, which positions us well as strong market players in Africa

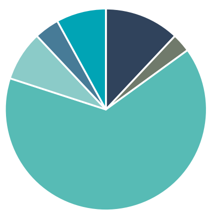
Looking forward

Key focus areas for F2012	Desired results
Progress the Department of Land Reform and Munitoria PPP contracts from preferred bidder status to financial close.	Achieve financial close and commence construction
Continue with our expanded growth into West Africa.	Further enhance our presence in the region by commencing construction on our awarded contracts, achieving financial close on opportunities within our immediate pipeline and securing further opportunities
Pursue and secure additional contract opportunities on the Waterfall Farm development.	Convert existing enquiries into contracts and ensure an increase in construction activity on the development
Drive our BNG housing developments.	Finalise the outstanding development issues on both the Waterfall Junction and Lincoln Meade Housing Developments and commence with construction prior to the end of the 2011 calendar year
Drive our integrated housing contracts.	Finalise the outstanding development issues to start the Cape Town and Vereeniging contracts in the fourth quarter of calendar 2011

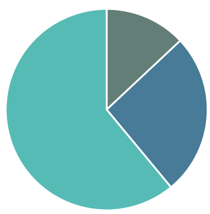
Private vs public Building and Housing revenue
Total order book



Building and Housing revenue by sector
Total order book



Building and Housing revenue by contract type
Total order book



Civil Engineering

R million	F2011	F2010
Revenue	3 548	4 713
Total operating profit	232	311
Core operating profit	232	290
Core operating margin (%)	7	6
Current assets	1 649	2 009
One-year order book*	2 459	3 035
Employees (pax)	3 577	5 575

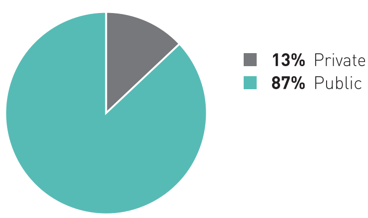
* *F2012 (F2011) secured order book.*

Andrew McJannet

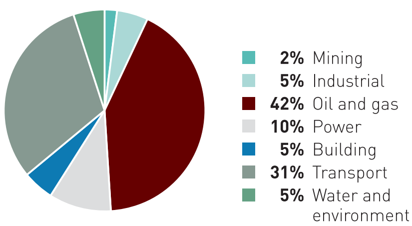
Civil Engineering contributed 38.5% (2010: 41.6%) to group revenue and 46.5% (2010: 35.4%) to group total operating profit.

Civil Engineering undertakes a broad range of contracts for both private and public clients in heavy civils, large concrete structures, mining and industrial infrastructure, roads, rail and earthworks and marine civils and pipelines.

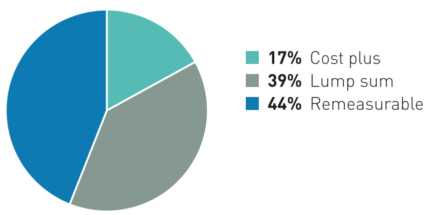
Private vs public Civil Engineering revenue
2011 – actual



Civil Engineering revenue by sector
2011 – actual



Civil Engineering revenue by contract type
2011 – actual



Market review

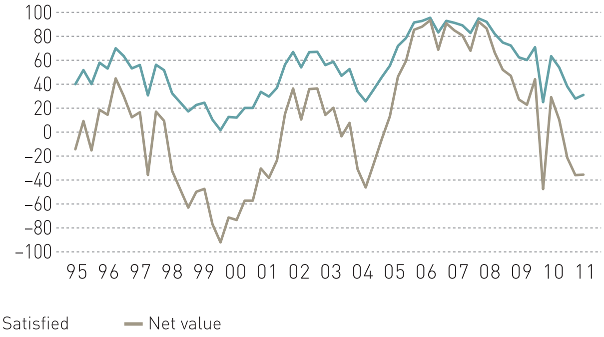
South Africa

In South Africa, expenditure in the public sector was underpinned by some of the major infrastructure contracts which were awarded in previous financial years. These include Eskom power station contracts, the Gauteng Freeway Improvement Project (GFIP) and the Transnet multi-fuel pipeline.

Although the Trans Caledon Tunnel Authority has launched a series of major water storage and transportation contracts, the overall quantity and size of contracts this year was much lower than in recent years. Public spending levels have reduced and are expected to remain at lower levels in the short term. Power, transport and water will continue to be the main areas of expenditure, mostly at a national level.

In the private sector, the main spend has been in the mining and industrial sectors. The need to improve South Africa's power generation capacity is providing impetus to expanding coal mining capacity, where some large contracts are being carried out which require civil infrastructure works. In the industrial sector, companies such as Sasol proceeded with further expansion contracts which also involve civil works. The private power market, although much needed, has been slow to develop. Unless the contract is essentially a captive power plant intended to supply most of its power to the owner, the agreement on the sale of power to the national utility Eskom is fundamental to the success of the contract. Few contracts have been successful to date.

State of order books (per quarter)



Source: SAFCEC.

Rest of Africa and Indian Ocean Islands

In the rest of Africa, although several opportunities are becoming available for partnership with government on major contracts (mostly road and rail), these are very slow to mature. Funding and the subsequent recovery of debt will be key to the success of these contracts. Mauritius is the exception, as there has been a number of public road and airport upgrade contracts awarded in the last year, with further significant contracts currently under adjudication. In the water sector, a number of major dam contracts are being developed, some with hydro-electric capacity. These should commence over the next few years.

The key private spend in other African countries continues to be on mining contracts, which are now rolling out again. Although some of these contracts are influenced by concerns over access to funding and political stability, many will proceed as planned. A potential source of activity is the possibility of long term PPP concessions for road and rail developments.

Middle East

Based on our strategy of regional diversification in the Middle East and North Africa (MENA), we are focusing on new infrastructure contracts in the United Arab Emirates (UAE), Jordan, Qatar and Saudi Arabia, whilst attending to commercial and financial close out on old and cancelled contracts in Dubai.

The market in the UAE has been slow to recover from the downturn and remains very competitive. New contract focus has not been in Dubai, but has moved to the Abu Dhabi region.

Saudi Arabia provides an attractive market for the group as the infrastructure programme is extensive.

Qatar is undergoing large-scale development which will provide long term construction opportunities.

Despite being a small market, we continue to pursue opportunities in Jordan, which will be targeted on a contract by contract basis in the infrastructure sector.

OPERATIONAL REVIEW – CIVIL ENGINEERING CONTINUED

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
South Africa		
Although spending might be slower than anticipated, we will continue to focus on tapping into the planned local expenditure, which will be led by power, water, roads, ports and harbours.	Certain spending areas, such as power and water, are crucial. Our track record of competence and delivery in these sectors positions us well for awards.	Award of public sector contracts continued to be slower than expected. Despite this, we have remained committed to procuring work in these sectors. Tender activity is increasing. We have recently secured a contract for the construction of the R600 million Spring Grove dam in KwaZulu-Natal.
We expect private sector spending to remain constrained, although we are seeing some large enquiries being issued for mining and petrochemical industries. These markets are aligned to our skills.	Regain market share in the recovering private sector markets.	We have procured a number of smaller contracts in mining and petrochemical industries whilst awaiting the larger contracts. We have seen some increase in tender activity.
Support the group's strategy to participate in private investment in electricity-generating capacity, such as captive power plants and the much-anticipated independent power producer (IPP) contracts.	With our recent successful commissioning of the Sasol gas turbine power plant, follow-on work in this sector is expected.	Institutional complexities and government delays have prevented the IPP contracts from finding traction. We remain well positioned to participate in the work in this sector.
Focus on supporting the Construction Materials and Manufacturing businesses of our group.	Adding to their secured order books for the year and increasing inter-group spend.	While we continue to source products and services from our internal supply chain, the reduction in our revenue has had a corresponding reduction in the amount of business we are able to procure internally.
Rest of Africa and Indian Ocean Islands		
Following a quiet period of mining developments and expansions, we are seeing budgets for contracts in numerous countries in Africa being placed for pricing.	Secure contracts based on our established geographic presence and experience in the mining sector.	We priced numerous budgets and several tenders for new mining contracts, but awards have not been finalised to date.
Driven by a recovery in mining and broadening economic activity, demand for infrastructure will be boosted further when contracts in water, power, roads and marine commence.	Broaden the target geographies and secure the kind of work where Civil Engineering has a proven competence in public infrastructure.	We are targeting several major contracts, the first of which has been secured through the Development Bank of South Africa (DBSA) for major road infrastructure in Zimbabwe. Large marine and water contracts were slow to materialise. On the power side, we bid for a contract in Kenya.
Middle East		
Continue to work with our partners in Dubai to successfully close out terminated contracts.	Finalise outstanding issues.	The two cancelled contracts' final values were concluded in the period and payment regimes are being negotiated.
Continue to develop the established relationships with General Electric and other key suppliers and partners.	Successfully develop joint power, water and transmission and distribution (T&D) opportunities.	The UAE market has been weak, but business in power, transmission and distribution and water opportunities will be developed further as we establish in more active markets.
Develop key relationships in the region with other international businesses.	Expand geographic footprint with partners in defined focus areas matched to our skills.	We have established new relationships in both Saudi Arabia and Qatar and continue to support our joint venture relationships in Jordan and the UAE.

Financial overview

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

Revenue was 25% lower from R4,7 billion (83% local) to R3,5 billion (85% local), while core operating profit decreased by 20% to R231,9 million from R290,0 million. Very pleasingly, the core operating margin improved from 6.2% in the prior year to 6.5%.

The improvement was due to the successful execution and effective commercial management of large contracts in both the public and private sector despite additional costs incurred in rectifying a pipeline contract in Jordan. Although tendering activity is high and increasing, awards are still infrequent.

In the Middle East, the group remained conservative in its treatment of the cancelled contracts which continue to progress slowly to resolution. During the year, some cash flow commenced. Geographic expansion in the region is progressing, while taking due cognisance of the risk imposed by the recent political unrest in the region.

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

Material issues within the business and how these have been managed

Increased competition

The most material issue affecting the cluster is the increase in competitive bidding on most contracts, with the associated reduction in margins. The current levels of industry pricing are not sustainable, with many players offering lower prices to keep resources busy. As far as possible, we have preferred to adopt these measures as a last resort and to rather focus on more technical contracts and over-border work which still offer a reasonable, although reduced, return. Although this has been at the expense of revenue in the short term, we believe this is the more responsible option for the long term.

Contract delays

The industry suffers continually from delays in contract timeframes. The past year was no different. Many tenders were postponed and several contract awards were made later than planned. This impacts both the industry which anticipates a certain level of workload, as well as the preferred bidder who must hold resources in expectation of an award. As a business, we accommodate this by targeting more contracts than required and by adjusting the release of resources to suit anticipated late awards.

Return to Africa

The mining sector in Africa, which has formed the backbone of civil contracts in recent years, was not a significant portion of the group's Civil Engineering revenue this year. It is therefore important that this sector is rebuilt in the coming year. With the reduction in activity in South Africa, there has been a drive in the industry to seek work in Africa, including firms not familiar with the construction environment outside South Africa. This has led to a tightening of prices over-border. As the rest of Africa is known to have more difficult trading conditions, our challenge will be to develop adequate volumes of work without compromising margins. Our previous experience in the rest of Africa positions us well for this.

Successful close out of mega contracts

The successful close out of some of the group's mega contracts in South Africa which are due to be completed this calendar year is a key focus area. These include the Gauteng Freeway Improvement Project (GFIP) Package E contract, which is due for completion by November 2011 in line with the original programme. A portion of the contract is set to be finalised in time for the implementation of the planned Gauteng Open Road Tolling scheme. Another contract set for completion is the pipeline and pump station components of the Transnet New Multi Product Pipeline (NMPP) contract, due to be handed over in July and September 2011 respectively. The entire construction contract is to be completed by 2013.

Tough conditions in the Middle East

Resolving the legacy of completed and terminated contracts in Dubai has been a significant challenge and has required the application of additional resources to achieve timeous closure. We reached a settlement agreement on the terminated Dubai Police Force Accommodation (DPF) contract with the outstanding debt scheduled to be paid in terms of an agreed payment plan. Pleasing progress was made on the agreement of value on the group's second terminated contract and on the close out of all completed contracts in Dubai. The group is satisfied with its progress in this regard.

Over the course of the year, we had to supply additional unplanned resources to a pipeline contract in Jordan which was running behind schedule. The intervention was successful, although the additional cost was material and had to be expensed and might not be recovered.

Furthermore, due to contract cancellations and weak markets, the group had to deal with severe reductions in its order book and its revenue base. It continued to carry overhead costs in the year to address the timeous closure of the completed and cancelled contracts, which negatively impacted performance in F2011. However, even against these challenges, the Middle East countries continue to invest heavily in infrastructure and the group therefore maintains its strategy of responsibly expanding in the region.

OPERATIONAL REVIEW – CIVIL ENGINEERING CONTINUED

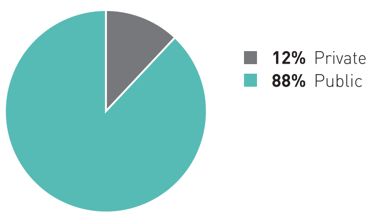
Key achievements

- Mega contract completions are advancing well and on track for successful handover. The pipeline and pump station components of Transnet's New Multi Products Pipeline is set to be handed over progressively from July 2011 through to 2012. The Gauteng Freeway Improvement Project (GFIP) Package E contract is due for completion in November 2011 in line with the original programme
- Securing a number of new contracts in target sectors, including the R600 million Spring Grove dam in KwaZulu-Natal, a R1,4 billion roads infrastructure contract in Zimbabwe and a number of smaller contracts in mining and petrochemical industries while waiting for both the public and private sectors to roll out planned contracts in the year ahead
- Reaching a settlement agreement on the terminated Dubai Police Force Accommodation (DPF) contract with the outstanding debt scheduled to be paid in terms of an agreed payment plan. Pleasing progress was made on the agreement of value on the group's second terminated contract and on the close out of all completed contracts in Dubai
- Establishing new relationships in both Saudi Arabia and Qatar and continued support from our joint venture relationship in Jordan

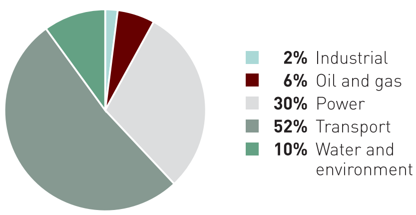
Looking forward

Key focus areas for F2012	Desired results
South Africa	
Following a year of contraction in the sector, a key focus will be to reverse the downward trend in revenue and to start rebuilding the order book.	Significant presence in the rest of Africa and capitalising on the expected growth in activity on the continent without losing capacity in the South African base
Successful completion of the remaining mega contracts, whilst adapting the business to suit a market which offers larger numbers of smaller contracts, with their associated challenges and differing levels of competition.	A more flexible business which is sustainable in an environment that consists of a wider range of contract size
Rest of Africa and Indian Ocean Islands	
Implement a new regional and product-based business development strategy, designed to further improve knowledge across geographies and the full suite of products.	An order book which is less reliant on South Africa and which reflects an expanded geographic footprint and covers more of the group's targeted sectors
Middle East	
Rebuild the Middle East order book in selected territories and sectors.	Secure risk and market-related positive margins and cash flow from a lower revenue and operating base within new territories
Continue to work with our partners in Dubai to successfully close out terminated contracts.	A satisfactory financial outcome to all outstanding contract-related issues
Develop our new business in Saudi Arabia.	Establish our brand in Saudi Arabia and secure our first contract with good returns and cash flows
Develop our new business in Qatar.	Further enhance the reputation we established on the first contract in Doha and secure cash enhancing and profitable contracts for the newly-established business

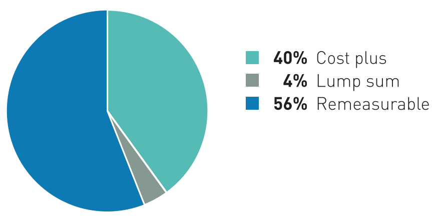
Private vs public Civil Engineering revenue
Total order book



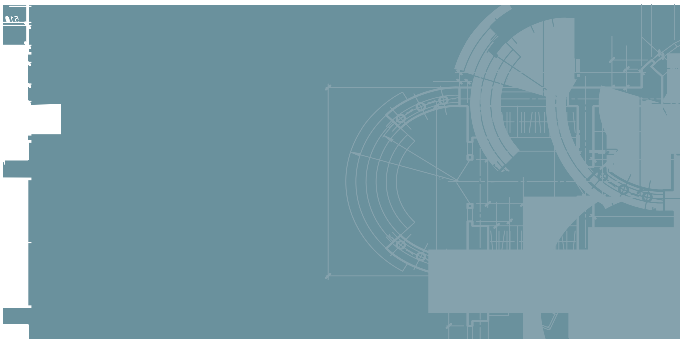
Civil Engineering revenue by sector
Total order book



Civil Engineering revenue by contract type
Total order book



Engineering



R million	F2011	F2010
Revenue	1 659	1 488
Total operating profit	112	148
Core operating margin	112	140
Core operating margin (%)	7	9
Current assets	460	581
One-year order book*	1 383	1 429
Employees (pax)	3 225	1 842

* F2012 (F2011) secured order book.

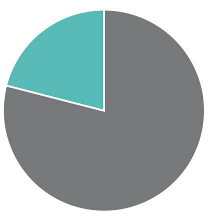
Willie Zeelie

Engineering contributed 18.0% (2010: 13.1%) to group revenue and 22.4% (2010: 16.8%) to group total operating profit.

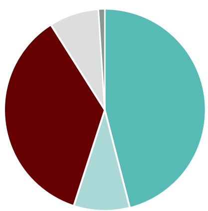
Engineering consists of Projects and Engineering and Construction (E+C). Projects is involved in structural, mechanical, electrical, instrumentation and piping (SMEIP) contracts. It is a total plant builder with a specific focus on the mining sector.

E+C is a developing engineer, procure and construct (EPC) business and is currently involved in power and oil and gas contracts, as well as operations and maintenance services. E+C offers multi-disciplinary project delivery from feasibility through to supporting bankability and front-end design, as well as project management of contracts during execution to completion.

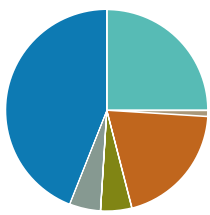
Private vs public Engineering revenue
2011 – actual



Engineering revenue by sector
2011 – actual



Engineering revenue by contract type
2011 – actual



OPERATIONAL REVIEW – ENGINEERING CONTINUED

As communicated previously, the group's strategy is to establish E+C as a fifth cluster of operations within the group. Market conditions have slowed the intended growth plan of this business. For F2011 the unit was therefore still managed and reported as part of the Engineering segment.

Market review

Projects

Projects is a structural, mechanical, electrical, instrumentation and piping (SMEIP) contractor which has traditionally operated within the sub-Saharan African private mining sector. However, in recent times, certain South African public sector work was undertaken for Transnet in the oil and gas sector. In the South African private sector, construction took place for a power plant for Sasol.

Tender activity within the South African public sector remained erratic, with occasional bids for Eskom's Kusile and Medupi power station contracts becoming available. The volatility is expected to continue, although we do expect an increase in private public partnership (PPP) power contracts.

The African mining sector remains our most active market. This is set to continue with the improvement in commodity prices which will fuel further development. We have successfully completed contracts in the Democratic Republic of Congo (DRC), Ghana, Mozambique and Burkina Faso in the year under review. With recent contract awards, we re-entered Namibia, Malawi and Tanzania.

Tender activity within the Zambian/DRC copper belts is at an all-time high and is expected to continue on the back of the favourable copper price. The gold price continues to drive the establishment of new mines, which extends across the African continent. The demand for coal is driving growth in a number of countries, with new contracts coming on stream and some at a planning stage, in particularly Mozambique. The West African iron ore market looks set to expand on the back of continued demand from India and China, with major contracts in the pipeline. The group is also tendering on contracts within the uranium, diamond, zinc and other base metals sectors.

During the year, we followed a focused strategy of re-entering the South African private market. We achieved this with a R330 million contract for Exxaro on the Grootegeluk coal mine expansion and a R30 million contract for Xstrata on their ATCOM mine. Going forward, we expect coal contracts to dominate the local mining market. In contrast, there was not much activity within the industrial sector during the year. The sector is expected to remain relatively slow for at least another 12 to 18 months.

Market review

Engineering and Construction

Engineering and Construction (E+C) focuses on building the capability to deliver turnkey solutions in South Africa, the rest of Africa, Middle East and Eastern Europe. Development of contracts associated with power, oil and gas and the water sectors are particularly evenly spread across local and international markets, with similar distribution between public and private prospects. The business' markets have slowed, with contract awards sporadic and difficult to forecast. However, looking forward, the pipeline of power, oil and gas and water contracts is growing.

In South Africa, the continued slow response by government to initiate and implement a framework to facilitate private and public investment into infrastructure contracts such as PPPs, IPPs and concessions is causing uncertainty and difficulty in planning and implementation. This apparent lack of urgency and direction has also caused international investors and technology suppliers to question their immediate role in the local markets.

In the rest of Africa, the public sector brings a different set of challenges. Although the framework for implementation of contracts is more effective, the complexity of the tender process, off-take agreements, increased competition and compliance processes result in very uncertain finalisation times. Several contracts therefore lose momentum, are cancelled or postponed.

Private sector contracts are more predictable, both in Africa as well as South Africa. Oil and gas contracts tend to be well supported, with clear requirements from the owners. Although these contracts are seldom of a turnkey nature, they remain complex and challenging. Definite growth is envisaged for refined products such as fuels, lubricants and chemicals, which is leading to the increased need for fuel storage capacity both in South Africa and Africa. New oil and gas finds in Uganda and southern Sudan will challenge the traditional African majors of Nigeria and Angola and will provide new growth opportunities for Group Five.

Growth in private power, as well as in captive power plants, is seen throughout South Africa and the rest of Africa. The shortage of power and constant interruptions of supply continues to impact production consistency and therefore profitability of mines, industries and enterprise in most developing countries.

The high price of distillate fuel continues to lead to owners questioning the cost-effectiveness of base load power and high speed diesel engines used as back up. Increased feasibility studies and enquiries therefore continue to be conducted on alternative forms of energy, such as biofuels, off-gas installations, liquid nitrogen gas (LNG) and natural gas. Although renewable energy like solar and wind are being investigated, it is a significant challenge for private power investors and captive power owners to secure debt for contracts of this nature. Lender finance availability is currently more controlled and harder to secure, although access to finance seems to be improving for renewable energy contracts.

Delivery

Find below how we delivered on our objectives outlined in our F2010 integrated report.

Key focus areas	Desired results	Status
Projects		
Further opportunities in new African and Middle East countries.	Secure new contracts in these regions.	Recent awards resulted in our re-entry into Namibia, Malawi and Tanzania. We were successful in accessing the coal mining market in Mozambique for the first time. We expect to enter the West African iron ore market within the near future. We are not actively pursuing contracts in the Middle East and North Africa due to the opportunities within the sub-Saharan mining sector.
Incorporate Electrical and Instrumentation (E&I) into Projects.	Through the new structure, ensure the successful roll out of an SMEIP service to our clients.	Re-integration of E&I was successful and added to our ability to execute a total SMEIP service to our clients.
Secure work within the South African power sector.	Secure new contracts within the sector.	We did not secure work on either of Eskom's Kusile or Medupi contracts. We are actively pursuing contracts within the gas-fired power market on the back of our successful track record.
Roll out an extensive materials tracking system.	Cost savings associated with loss, identification and sequencing of materials.	The system is up and running on its first contract.
Enhance our reputation as SMEIP contractors within the South African oil and gas and power sectors in support of the group's sector strategy.	Successful delivery on the Sasol and New Multi Products Pipeline (NMPP) contracts and new contact awards.	Both contracts at Sasol have been successfully completed and the NMPP contracts are well underway.

OPERATIONAL REVIEW – ENGINEERING CONTINUED

Key focus areas	Desired results	Status
Engineering and Construction (E+C)		
Establish the E+C business.	A permanent structure through which we will develop, bid, secure and execute large multi-disciplinary contracts.	E+C is now a fully integrated business which delivers turnkey solutions to target sectors and geographies. The integration of business development and design and planning is complete. However, market conditions have slowed the intended growth plan for this business.
Expand the group's footprint into new sectors and ensure alignment with technology providers and engineering skills.	Establish the group's position within the strong growth sectors in infrastructure.	Strategic target sectors were identified and structures implemented to maximise opportunities. During the year, the team further aligned itself with technology manufacturers and suppliers associated with its target sectors.
Capacity building in the power sector.	Secure next round of IPP and renewable energy contracts.	In South Africa, there were government delays in the renewables programme. Requests for quotations are expected to be issued during the first quarter of F2012, with possible awards towards the end of F2012. In Africa and Eastern Europe, project finance for contracts have been slow due to the global market slowdown. The finalisation criteria for contracts have also become more stringent and time consuming. However, we expect certain contracts to be awarded in F2012.
Geographic expansion in support of technology partners.	Secure work in additional territories aligned to our group and partner strategy and in terms of the group's pre-determined risk hurdle rates.	In parallel with our strategy of focusing on sectors, we evaluated opportunities to expand certain offerings into new regions. In support of Group Five's identified regional hubs in West, East and Central Africa, we expect improved prospects in oil and gas and the expansion of power. Opportunities were identified in Eastern Europe, specifically in the power sector.

Financial overview

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

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

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

The secured one-year order book remained at R1,4 billion (75% local) compared to 30 June 2010 when 51% was local. The full secured order book stands at R2,1 billion (83% local) (2010: R1,9 billion (64% local).

Material issues within the business and how these have been managed

Projects

Foreign exchange risk

The Rand/Dollar exchange rate remains volatile. As over-border contracts are tendered and priced in foreign currency, fluctuations in exchange rates can materially affect contract profitability from the date of tender through to the date of contract completion. To address this, the business follows the group's internal risk management guidelines and hedging strategies.

African political risk

Due to our focus on over-border mining contracts, we encounter various risks associated with operating on the African continent. These risks can change swiftly without advance indications of change. We manage this through detailed risk reviews on a country by country basis, with security and evacuation plans pertinent to each region in place.

Skills development in South Africa

Within the SMEIP market, skills development is one of the major factors which impacts on our ability to deliver contracts in South Africa due to skills shortages. Although the industry often supplements skills with foreign nationals, this has in the past led to unrest on sites, as recently seen on the Eskom Medupi power station. The group therefore aims to balance skills supply between local skills and specialist imported skills.

Employee retention

Over the last few years, the group has had a good employee retention rate. However, as there is currently a reduced number of opportunities in South Africa and local contractors are tendering over-border, good skills are often targeted by competitors.

To address this, Projects continues to focus on its employees' development and work satisfaction, as well as their performance management through consistent performance appraisals and succession planning.

Transformation

Employment equity remains one of the core focus areas for our business to ensure effective transformation. The group's strategy has been to "grow our own talent". A key area to address is senior employee development and retention due to the demand for senior skills along with other sectors offering attractive opportunities following the downturn in the construction sector.

Projects continues to concentrate on fast-tracking black candidates in its aim to enhance transformation of its senior management.

Engineering and Construction (E+C)

Delays in contracts

The integrated electricity resource plan for South Africa is still awaiting promulgation. Independent power projects, especially those focused on renewable energy, have therefore been delayed. Any further delays will have a material impact on the group's implementation strategy around solar and wind contracts as we have applied resources to develop this market. To mitigate against this, the group is strongly positioned to bid for contracts in the thermal and liquid/gas fuelled private power markets for IPPs, co-generation and captive power plants.

Group Five is also in the process of ensuring nuclear construction readiness in anticipation of the South African nuclear programme, although this is a medium to long term opportunity.

OPERATIONAL REVIEW – ENGINEERING CONTINUED

African political risk

As outlined in Projects, operating in Africa has numerous challenges. The E+C business is exposed to the same risks. To mitigate against these, it closely follows the group's risk management procedures.

Increased competition and margin pressure

The increased interest in African contracts by South African, European and Asian construction companies has significantly increased competition in all our markets and has placed downward pressure on margins. To address this, the group continuously expands its construction offer and develops its technology alliances to enhance its ability to develop bankable packaged solutions with clients.

Building EPC capacity

The group's target markets require design and build, EPC and full service support capability. In the short term, this capacity building is an investment in future growth as this business will not provide an immediate return on its investment due to the current delay in contract awards.

The EPC contracts which have been implemented have all been technically sound and financially beneficial.

Key achievements

Projects

- ✔ The consolidation of our operations in the DRC. We launched our small works operation which is developing well, we erected the Kipoi copper concentrate plant in under three months and completed the Kinsevere Stage II contract in the DRC with first copper being produced in May 2011
- ✔ Successful construction as the lead partner in an EPC arrangement with a design partner for a gold mining process plant in West Africa. This demonstrates the group's partnering and alliance contracting methodology
- ✔ Re-entry into the Southern African Development Community (SADC) mining arena with the successful award of the Grootegeluk and ATCOM coal contracts in South Africa, the award of the Benga coal contract in Mozambique and our return to the Langer Heinrich uranium mine in Namibia

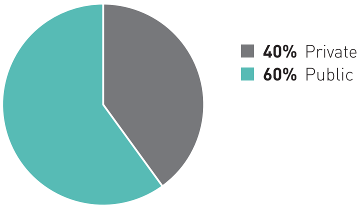
E+C

- ✔ E+C's power business unit has now successfully executed 800 MW of power contracts, as well as 350 tonnes/hour of steam generated from combined cycle operations. All of these contracts have been in a turnkey contract environment and are based on EPC commercial terms and guarantees. These contracts have established the group as a solutions provider for power delivery in the African market. Our experience in thermal contracts is now being expanded into Eastern Europe, as well as into solar and wind power contracts
- ✔ The oil and gas business unit has successfully progressed into turnkey contracts and storage tank design and construction in South Africa. These contracts are aligned to the industry's plans for capital upgrades and maintenance. To support this scheduled growth, it has become necessary for the business to improve its certification with respect to welding techniques and standards. During the year, it successfully achieved ISO 3938 certification in Cape Town and Durban, a first for a construction company in South Africa
- ✔ The creation of a turnkey solutions business within Group Five has allowed E+C to focus on developing world-class systems and resources. During the year, a full suite of contract and project management tools was implemented to ensure efficient and professional execution of turnkey contracts
- ✔ In a group-wide and joint effort, we were successfully assessed and achieved conditional certification by Eskom for multi-disciplinary construction within the highly specialised areas of a nuclear facility. The group qualified to execute works in all areas of the Koeberg nuclear plant or any other Eskom nuclear plant

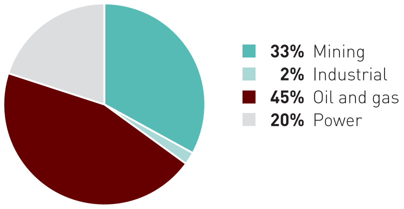
Looking forward

Key focus areas for F2012	Desired results
Projects	
Focus on iron ore contracts in West Africa.	Secure one of the large iron ore contracts
Secure power contracts in South Africa.	Secure further gas-fired power contracts
Target new engineer, procure and construct (EPC) mining opportunities.	Complete our first EPC mining contract and secure new EPC contracts
Address employment equity targets at a senior level.	Continue to hone our strategy in this regard to ensure traction
Engineering and Construction (E+C)	
Expand the oil and gas business unit's geographic footprint into selected over-border markets to take advantage of increased international tender activity.	Increase in contract awards in refinery and fuel storage infrastructure
Establish an independent business focused on renewable power such as wind and solar.	Strengthened capabilities to offer clients, developers and technology providers a turnkey solutions business covering all aspects associated with this sector
Expand geographic footprint in the water sector to the rest of Africa.	Establish Group Five as a solutions provider aligned to various technology partners to offer innovative and cost-effective solutions to the water infrastructure developers in Africa
Diversify and strengthen engineering and design capacity to support improved execution and integration capabilities.	Increase depth of skills in the management of engineering and design Reduction in rework, improvement in quality and process implementation, as well as lower cost

Private vs public Engineering revenue
Total order book



Engineering revenue by sector
Total order book



Engineering revenue by contract type
Total order book