

Meeting the Challenges

"The warrior of light studies the two columns on either side of the door he is trying to open.

The Warrior of Light

- > One year of Rebuilding Murray & Roberts remains. As executive leaders and directors of the Group we have looked through the door to the future and contemplated our options for the journey ahead. Our past is well recorded and encompasses all that we know. The journey has been difficult and this past year tested our commitment to sustainable earnings growth and value creation.

will prove useless!

We have chosen to follow the principles on the column of Desire.

The warrior looks at the column of Desire and on it is written: 'You are about to leave a familiar world wherein are stored all the things you ever wanted and for which you struggled long and hard.'

- > Globalising Murray & Roberts re-energises our commitment to sustainable earnings growth and value creation. We seek to pursue the greater challenge of globalising our reputation rather than our physical presence. Our journey follows the path of scale and focus to a destination defined by our point of departure.

The warrior smiles because nothing frightens him and nothing holds him.

We are South African and we are Murray & Roberts.

With the confidence of someone who knows what he wants, he opens the door."



Chief Executive Report to Stakeholders



Rebuilding Murray & Roberts has become synonymous with corporate transformation in South Africa. The process has been a challenge for all associated with its implementation and no single part of the Group has escaped the relentless pressure for change. Planned for implementation over a five-year period, this fourth year has presented some of the greatest challenges to our commitment to sustainable earnings growth and value creation.

The Trading Statement and Cautionary Announcement released on 9 June 2004 notified the market that flat business conditions, ongoing rationalisation in terms of the objective of Rebuilding Murray & Roberts, continued strength in the South African currency and the dynamics and timing of targeted major projects would result in a 15% decline in headline earnings compared to the previous year.

This followed earlier indications of difficult trading conditions highlighted in the business update issued at the annual general meeting on 27 October 2003 and the prospects statement in the report on interim results for the six months ended 31 December 2003.

The Group finalised the year to 30 June 2004 with fully diluted headline earnings per share down 15% to 152 cents compared with restated headline earnings per share of 178 cents for the previous year. This was achieved off a 17% decline in revenues to R8,4 billion. Operating margin declined to the target minimum of 5% reflecting the difficult trading conditions experienced by the Group in this fourth year of Rebuilding Murray & Roberts.

The Group's balance sheet remains strong with cash reserves of R1,1 billion at year-end, down from R1,5 billion for the previous year. The Board has decided to declare a final dividend of 30 cents per share, making the total dividend for the year 45 cents per share. This is down 15% on the 52,5 cents per share awarded in the previous year.

A detailed report on performance in each of the operational clusters follows later in this report and the financial director comments in his report on the annual financial statements.

“The leadership team has the will and experience to deliver Globalising Murray & Roberts.”

Strategy

In my 2003 report to stakeholders I highlighted that the Group had developed a framework for expanding our business model Beyond Rebuilding Murray & Roberts. The foundation of this strategy was a primary focus on the construction economies of the less developed world and the leverage of our South African competitiveness into global markets.

This framework has been advanced during the year based on information distilled through a combination of market intelligence, strategic engagement and independent research. Following review of this year's operational business plans, the Board considered and approved the concept of Globalising Murray & Roberts as the primary growth strategy for the period starting now and extending for the five years following 30 June 2005.

Globalising Murray & Roberts re-energises our commitment to sustainable earnings growth and value creation, setting a framework for growth based on reputation rather than physical presence. The Board is satisfied that the Group is prepared for this new journey.

The market and performance problems experienced in the current year have set the risk management agenda for the Group and the appropriate level of executive capacity has been assembled over the past few years. The leadership team has the will and experience to engage and deliver and the fundamental principles of Rebuilding Murray & Roberts remain paramount. It is recognised that the scale of leadership intervention and innovation will be no less demanding than was required during the rebuilding process.

Globalising Murray & Roberts follows a significant-sample statistical model of business sector globalisation measured over a 25-year period that shows the general construction sector as still largely fragmented and domestic. Globalisation is more evident in construction materials and engineering services. This proven formula for development as a serious player in global markets suggests that Murray & Roberts now faces the challenge of scale.

Murray & Roberts has been active in global markets for more than four decades and currently records some 40% of its business – largely project activities and the export of manufactured products – outside South Africa. Important developments over recent months have given new impetus to our drive for global growth.

- > Appointment of new executive and non-executive capacity.
- > Establishment of a strong international leadership and advisory capacity.
- > Disposal of the Group's 44% shareholding in Unitrans Limited.
- > Acquisition of the Cementation mining business in South Africa and Canada.
- > Acquisition of a strategic interest in and partnership with Clough Limited in Australia.

The primary focus of the Group is to serve the construction economies of the less developed world, with a secondary involvement leveraging South African competitiveness through industrial manufacturing. New areas of opportunity are the oil & gas sector and expansion of existing capability in mining & industrial and construction materials. In this context Globalising Murray & Roberts focuses on three regional markets.

- > Johannesburg is the Group's head office and primary base for operations in South Africa. Through its representative office in Gaborone, Murray & Roberts International (and its subsidiaries) operates throughout sub-Saharan Africa.
- > Dubai is the centre of the Group's Middle East operations and the platform for access to the markets of south Asia.
- > Perth will become the point of access for the markets of Australia and Southeast Asia.

A representative corporate office has been established in London to service our northern hemisphere operations and international investments and to oversee the Group's international treasury. This increases our risk management capacity and offers better access to the resources necessary for international growth.

A further representative corporate office will be established in Dubai to engage the potential of the greater Middle East and south Asia region, with a particular focus on the oil & gas and mining & minerals markets.

Acquisitions and Disposals

It has been a clear objective for the latter years of Rebuilding Murray & Roberts to dispose of the Group's 44% shareholding in Unitrans at best possible value and to acquire new platforms for growth in sectors that form the core strategic thrust of the Group.

Following an extensive period of engagement and due diligence, the businesses of The Cementation Company (Africa) Limited and Cementation Skanska Canada Incorporated were acquired with effect from July 2004 in a linked transaction valued at approximately R160 million. Minority shareholders in Cementation Africa will be offered a further R35 million and subject to various approvals, the company will be delisted from the JSE.

In the meantime plans are being prepared for rationalisation of the Murray & Roberts and Cementation mining assets and the introduction of an empowerment equity partner.

Disposal of the Group's 44% shareholding in Unitrans Limited has been concluded at a value of almost R950 million. This represents an extraordinary profit of about R300 million (90 cents per share) before transaction and other costs.

The Group acquired control of Unitrans in 1992 as part of a Sankorp portfolio rationalisation. The company has operated as an independent listed investment since then. In a transaction with Steinhoff International Holdings Limited in June 2000, control was relinquished and pre-emptive rights were granted over the remaining shares held by the Group in the company. A confidential shareholder agreement set the terms and conditions by which the parties could dispose of their respective shares to each other, the market or to third parties.

In effect Murray & Roberts had sold control at a discount in 2000 and the pre-emptive contained significant hurdles to an optimum value transaction. An increase in the Unitrans share price over the past year brought the possibility of a transaction into a price range that became attractive to Murray & Roberts. In April 2004, a formal process was commissioned to dispose of the Group's shareholding, with four proposals received during June and July 2004.

One proposal was priced too low and rejected. Another was converted into a firm offer at an acceptable price and with limited conditions such that it could be placed with Steinhoff as holder of the pre-emptive. Following notification to Unitrans of the offer, Unitrans decided to issue shares for an empowerment deal without first seeking the approval of shareholders, placing the Murray & Roberts sale at risk. An objection lodged with the Securities Regulation Panel was eventually resolved by Steinhoff exercising its pre-emptive rights at the offer price and announcing that it would continue to support the Unitrans empowerment transaction.

Details of the performance of Unitrans for the year to 30 June 2004 are available in the Unitrans preliminary report published on 24 August 2004.

The Group has finalised the terms of disposal of Elgin Engineering and the sale of Pefco Foundry is being finalised. Subject to conditions precedent expected to be fulfilled by the end of September 2004, agreement has been reached subsequent to financial year-end to dispose of the Group's interest in Booker Tate, based in the United Kingdom. Each of these companies carried unique long-term liabilities, all of which are eliminated from the Group's future risk profile.

The Group has announced that subject to approvals, it has acquired 30% of the equity and joint control of Clough Limited in Australia for approximately R390 million. In a strategic partnership with the Clough family the Group will raise its stake to above 50% over the next few years and an operating joint venture will be established in partnership with the company.

Order Book

The Group's project order book stands at R5 billion at 1 July 2004 compared with R4,8 billion at the end of the previous year and R4,1 billion at 31 December 2003. This includes R1,9 billion in orders acquired through the Cementation mining business in South Africa and Canada with effect from July 2004. The decline in traditional order book to R3,1 billion has a negative short-term impact on construction & engineering revenues and is largely due to delays in the flow of major industrial, mining, infrastructure and building projects.

Over the past two years, the Group has recognised future losses on projects in Benin, Egypt and Malawi in Africa and Abu Dhabi in the Middle East. This technical break-even element of the order book has a short-term impact on operating margin and return on equity.



Governance & Empowerment

Murray & Roberts contends that corporate governance and empowerment in South Africa form a single integrated strategy. The King Report on Corporate Governance for South Africa 2002 combined with various legislative and regulatory developments concerning black economic empowerment ("BEE") present a unique transformation challenge to South African business enterprises and their boards of directors.

Black economic empowerment

South Africa's Broad-Based Black Economic Empowerment Act offers a new benchmark for engagement by business of this important transformation imperative. The challenge defined by BEE is a priority to Murray & Roberts leadership as we engage in an array of specific initiatives on a journey to achieve appropriate levels of demographic integration in every aspect of our business.

Murray & Roberts has communicated its strategic statement "We are South African", which includes a commitment to engage in legitimate social and economic empowerment.

The Murray & Roberts empowerment strategy is holistic, will satisfy the requirements of the JSE Securities Exchange South Africa and must fulfil our commitment to sustainable earnings growth and value creation.

A feature of the past year has been delays and cancellations by mining, industrial and public sector clients, particularly in South Africa, of major project decisions. The Gautrain commuter project is delayed by a year, with a decision on the preferred bidder now expected in February 2005. Murray & Roberts is a lead member in one of the two ventures involved in the tender process.

There has been a significant cutback in new mining expansion in South Africa as locally based resource groups rethink their investment strategies in an environment of currency volatility, empowerment legislation and global cost pressure. One-third of the Cementation order book relates to annuity-style contract mining of existing operations.

There has been a material decline in foreign direct investment into new industrial assets as South Africa's relative level of competitiveness and its distance from global markets impacts the economic viability of long-term investments. The order book for engineering services and mechanical, electrical & instrumentation operations remains under pressure as a result.

There is strong evidence that the power & energy sector will offer increased opportunity in the years ahead. Recommissioning of mothballed power stations will come first, followed by new generating capacity based on thermal, hydro, gas and nuclear technology.

Award of the Soccer 2010 World Cup to South Africa has given additional impetus to many aspects of public sector investment. This bodes well for maintenance of the high levels of fixed investment currently being experienced in the domestic construction economy.

In Dubai, the Group initially pre-qualified and has since submitted competitive proposals for two of the world's largest construction projects each valued at approximately R6 billion. Burj Dubai will be the tallest building in the world at more than 700 metres and Dubai Mall the world's largest retail centre at more than one million square metres.

We are proud to be one of just a handful of global contractors to have qualified for such prestigious projects. This is evidence of the reputation we have established in mega-project implementation over the past decade. We believe the Middle East market holds significant opportunity for the Group in the years ahead.

The partnership with Clough Limited in Australia opens the global oil & gas sector to the Group and offers a new platform for access to the mining & minerals markets of the eastern hemisphere through a joint venture that will be established between the two companies.

The long-term order book for foundry work has strengthened with work-in-hand extending at near current levels beyond 2010. An announcement on Spoornet's locomotive replacement programme in South Africa has been delayed indefinitely.

Market Dynamics

Gross fixed capital formation in South African has continued to grow ahead of the general economy, but has offered different levels of opportunity to the various sectors of the construction economy. Macro economic factors have forced a decline in major projects normally associated with private sector investment into mining and industrial assets.

Growth & Risk Management

Murray & Roberts links growth and risk management as integrated elements of its commitment to sustainable earnings growth and value creation. The pursuit of growth is a natural expression of confidence and ability, either to fill a space not competently occupied or to expand into occupied space with an alternative value proposition. All growth strategies bring the potential for risk and sustainable success lies in management of that risk.

Risk Management

The management of risk represents a primary focus of the Group's directors and executive management. The Board and its committees have developed and approved a number of codes, policies and terms of reference that establish a framework for the conduct of business in the Group based on principles of good governance and sound risk management.

Murray & Roberts works on the principle that opportunity derives from acceptance of risk, value derives from management of risk and resolution of the consequence of risk requires more energy than management of risk.

Derived philosophically from Einstein's formula $e=mc^2$, the energy (e) to manage risk (or its consequence) equals the product of the scale (m) of the risk (or its consequence) and the square of the distance (c) of the risk from its benchmark and/or origin.



Lower rates of interest and inflation have combined to stimulate the consumer retail sector, which for the building sector translates into higher levels of residential spend. Increased public sector investment into socio-economic services and infrastructure has underpinned the general construction economy. These two factors have offered increased levels of opportunity for small and medium sized enterprises in the industry.

Producers and suppliers of construction and building materials have also benefited from the increased level of general construction activity. For the first time in more than a decade, new capacity is being considered by the cement industry and other manufacturers.

There is a reasonable level of construction activity throughout sub-Saharan Africa, but little of consistency in any particular country. Virtually all infrastructure is financed through either multilateral or bilateral arrangements with developed world institutions. Although this offers some certainty of payment, problems do arise when the conditions encountered vary from those presented for tender. This is the primary reason for the problems experienced with various road contracts in recent years. Experience creates learning and it is likely that the market will adjust to accommodate these and other systems changes over time.

The Middle East has been the centre of some of the world's major conflicts over the past decade at least and remains a restricted environment in many dimensions of business. However, economic diversification in the region has spurred a significant investment drive that holds good market potential for the construction industry.

Problem Operations

Performance in the year has been severely impacted by a few problems in different sectors of the Group's operations. In finalising the results for the year, a prudent view was taken on the downside risk profile of these operations.

The San Stefano project in Egypt is a USD90 million building structure awarded to Murray & Roberts and executed in partnership with Al Habtoor of Dubai and local contractor SIAC. The total project is valued at USD250 million and with other contractors sharing the site, as is common in this part of the world, difficulties arose from commencement. In the fourth quarter this year it was decided to assume a worst-case financial outcome (Murray & Roberts share R25 million) to enable the joint venture to renegotiate a revised completion arrangement with the client. This agreement has been concluded subsequent to year-end and holds upside potential for the year ahead, subject to performance.

Equatorial Guinea became an interesting market opportunity following discovery of oil & gas reserves during the 1990s. Murray & Roberts entered the country in 2002 with an initial USD8 million construction services contract for Marathon Oil, which had grown to USD50 million by the time the Group demobilised prior to the planned coup d'etat in April. As the final account had not been

agreed and a significant amount remained outstanding, it was decided to provide USD4.5 million at year-end. Management was tasked to recover this amount, which was achieved during August.

The Abu Dhabi National Oil Company head office extension is a AED300 million contract where complex interrelationship issues have compounded a challenging technical project. Performance management of subcontractors and the flow of information to and from them has become a critical success factor in the Middle East. This project is significantly behind schedule and the collapse of a tower crane earlier in the year compounded the problem. The fit-out contract has subsequently been awarded to Al Habtoor Murray & Roberts and it is expected that this will allow structural completion to be extended to avoid further penalties.

The Shell Camps project in Nigeria has lingered in a state of partial suspended animation for almost two years, awaiting a full contract. The Group has finally decided to exit the contract and has agreed to cede its share to local partner Intels.

The Monkey Bay road contract in Malawi has encountered design-related cost over-runs and delays that consume too much management energy relative to the potential return. An agreement has been reached with the client and funding agency for Murray & Roberts to cede its 50% interest to its partner, who will complete the contract.

Consani has suffered in a year where the strong SA Rand has eliminated any competitive advantage of local manufacture for export markets. Over the past few years the industry has developed local suppliers such that 80% of input costs are domestically sourced. As 65% of the world's containers are sourced from South Africa, the price is set on domestic dynamics, which means that the increased US Dollar cost has resulted in both a reduction in order uptake, as well as a search by buyers for alternative sources of production.

The company also had to manage a product recall during the year with 1 500 containers from an order design dating back to 1995 showing early signs of failure. The matter has received high-level attention and insurers are backing the repair programme. An operating loss of R6 million in the year gives a reversal of R40 million on last year's result.

Genrec Engineering experienced a difficult year and has been forced to adjust to a market with no large-scale industrial or mining projects. An operating loss of R17 million includes significant rationalisation costs that refocus the company on the general structural steel market. This is a major reason behind the poor performance from the steel group in the year.

I have ensured that appropriate action has been taken such that we do not repeat these mistakes in the future. In general, the above problems have arisen in companies that were not subjected to early rationalisation in terms of Rebuilding Murray & Roberts. These are primarily Consani, Roads and Earthworks and Middle East. More detail on the appointments to these companies follows later in this report.

“Economic diversification in the Middle East has spurred a significant investment drive with good potential for construction.”

Construction Operations

Stephen Pell has worked over the past two years to bring together the disparate elements of the Group's building and industrial construction operations into a unitary framework. Value was created in the previous year arising from consolidation of domestic regional operations. The SADC business units were also brought into the framework.

The Group secured its fair share of domestic and regional building projects that delivered acceptable profitability when compared to the results of peer companies. There has been a slowdown in industrial civil engineering works, which traditionally carries a higher margin as less work is done under subcontract. This has depressed the operating margin in the year.

Stephen brings the roads and earthworks operation into his reformed construction company from July this year. Richard Saxby has significantly transformed the business over the past two years, realigning its market offering from revenues of R750 million to R300 million. The company has started to achieve success in the domestic road refurbishment market and Richard will play a key role in the company's empowerment strategy.

A task team was formed last year to review the Middle East operations after the audit revealed some concern with working capital growth and the collectability of outstanding contract payments. It was clear that the scale of the business had grown beyond the capability of existing management.

Nigel Harvey was a member of the task team. He was appointed general manager in Dubai with effect from January 2004 and since then has worked to normalise the operation. The company delivered break-even profitability in the year. Nigel will focus the business on major building projects in the Gulf States, with a primary focus in Dubai.

Peter Adams was appointed operations director of Murray & Roberts International in February 2004 and managing director of Murray & Roberts United Kingdom in July 2004. Peter has assumed corporate responsibility for servicing the Middle East operations and Cementation Canada. More specifically in the short-term, he has led the engagement of a solution for San Stefano in Egypt.

Murray & Roberts RUC experienced the cancellation of some projects and delays with others during the year. There has been less international activity than normal and the Group consolidated its position in the Australian mining sector by acquiring the Byrnegut 50% of their joint venture based in Kalgoorlie for AUD5 million. A fraud relating to VAT allocation amounting to R8 million was uncovered in the company and expensed in the year.

Acquisition of The Cementation Company (Africa) Limited will result in Henry Laas taking all or part of RUC into the planned new

consolidated business under Sean Flanagan. It is likely that this will result in a reframing of the segmental structure in the current year.

The performance of this sector is enhanced by a R27 million realised profit on sale of the Group's concession investment in the Mangaung Prison, plus a R7 million fair value increase in the Group's other concession investments.

Construction Materials & Services

Keith Smith has maintained his primary focus on the domestic construction economy and during the year has continued to build capacity in all operations. The Group's construction materials operations are grouped into two primary clusters, with steel under the leadership of Rob Noonan and infrastructure under Jim Wood.

Murray & Roberts Steel was impacted by volatility in both input costs and market prices during the year. These have not always occurred together and there have been some lead and lag effects at different times of the year. Hall Longmore had a good year, although down compared to the previous year when the Temane Pipeline project was at peak production. Harvey Roofing has struggled with the strong SA Rand, finding it difficult to increase prices into its offshore markets. Gordon Taylor was appointed in January 2004 to lead the transformation of Genrec and resolve the problems described earlier.

CISCO benefited from strong international demand for quality steel billet, but suffered the consequence of a significant increase in scrap input costs. The Group is investing in a new ladle furnace that will substantially increase the production output and efficiency of this unit.

A price war in the steel reinforcing sector dampened performance in the year. This has become a common occurrence in recent years as new entrants attempt to disrupt existing market dynamics. The Group has experienced some difficulty in its international steel trading operations with the strong SA Rand causing supply disruptions.

Much Asphalt experienced another steady year with total market demand above two million tons per annum. Phillip Hechter and his team offer quality service from a range of modern plants positioned strategically throughout South Africa and SADC. The company has a strong capability supporting empowerment enterprises in the road refurbishment market.

The demand for concrete products has remained strong and Rocla has benefited from its strategic positioning throughout South Africa. Louis Geldenhuys and his team maintained their focus on market trends and have been able to extract greater value out of their existing assets and infrastructure.

Tolcon, Criterion and Johnson Arabia all experienced a good year although for the latter two, the strength of the SA Rand impacted earnings on a relative basis.

It is difficult to predict significant growth from this sector in the year ahead. The domestic construction economy is strong and cement sales indicate good growth potential. However, the Group is not directly exposed to the residential building materials sector, which is where the highest demand is currently being realised. Government has not indicated that major infrastructure projects have been prioritised, with extended delays being experienced in the authorisation of new public private partnerships.

Engineering Contracting & Services

Sean Flanagan ended his tenure in this sector with completion of the Mozal and Hillside aluminium smelter projects during the year. The twelve-year investment programme has established a global reputation for Murray & Roberts in mega-project implementation with Sean as executive leader for the past six years.

The strength of the SA Rand and some investment uncertainty in the local economy has resulted in long gestation periods for new mining and industrial projects. The baton as managing director of Murray & Roberts Engineering Solutions passed to Malose Chaba in May this year. With the market apparently shifting to power and energy, Malose has repositioned the company in this direction. He is also looking at mining sector opportunities in the rest of Africa, has assumed corporate responsibility for Gautrain and will bring his company's capabilities to bear on all major project opportunities across the Group.

Engineering Solutions slipped back from its previous year's performance as it struggled with the lack of major project opportunity. Murray & Roberts MEI, on the other hand, delivered on its turnaround with Simon Mordecai-Jones and his team ramping performance in the year. This business has been incorporated into the new construction company under Stephen Pell with effect from July 2004. This presents all the Group's domestic and regional construction related businesses within a single service offering for the market.

The operating partnership with Clough will be serviced from Engineering Solutions, focused primarily on the mining & metals markets of Australia and Southeast Asia. Roland Berndt (previously group chief engineer) has relocated to Perth and will lead the joint venture between the companies.

Where the Group introduces Clough into the oil & gas markets of Africa and the Middle East, potential projects will be facilitated through Engineering Solutions and MEI.

Fabrication & Manufacture

Edwin Hewitt has developed Murray & Roberts Foundries Group into one of the leading specialist suppliers to the automotive market in South Africa. The four production units in Port Elizabeth and Brits have been upgraded over the past three years and today rank with any similar facility anywhere in the world.

The three-year investment programme to modernise the foundry facilities has created a world class business that has successfully optimised the niche opportunity offered by government's Motor Industry Development Plan. Long-term contracts have been secured with Ford and Volkswagen for the supply and partial assembly of specialist engine systems. Delivery requirements are to global standards and require uninterrupted management focus on the production facilities.

During the year the new casting line at Autocast 2 in Port Elizabeth was commissioned and Autocast 1 at Brits was finally brought up to an appropriate standard of performance.

The UCW Partnership performed well in the year, primarily on the metro coach refurbishment programme. The creation of value experienced through the partnership with J & J Group sets the standard for long-term empowerment in the Group.

The delay in announcement of the locomotive replacement project places greater pressure on the demand for improved rolling stock capacity in the country. It is clear that this problem requires innovative and competitive solutions from both public and private sector players.

As stated earlier, industrial manufacturing for export from South Africa has been negatively impacted by the strong SA Rand and reduced global demand. Consani has delivered an operating loss of R6 million in the year and has been severely rationalised in line with market conditions. John Hoare has been appointed to oversee the company through its next phase, which may include disposal on appropriate terms.

John has played a leadership role in the management and disposal of Elgin and Pefco as non-core operations and he serves as the executive contact with Borbet South Africa.

Corporate Leadership

The corporate office plays a key role in upholding the principles of Unitary Murray & Roberts, offering leadership, direction and administration to all elements of the Group. The office of the group chief executive provides a framework for high-level leadership and expertise that is required to meet the complex demands of global business in the 21st century.

New executive leadership is constantly sought from both the external market and from within the Group, to build the capacity required for sustainable earnings growth and value creation. Increased corporate expenditure this year reflects in some measure the level of activity in

“The partnership with Clough in Australia opens the global oil & gas sector to the Group.”

preparation for the Group's new globalisation strategy. Leadership has been enhanced in both the domestic and international sectors, primarily to ensure the capacity for growth and risk management that will flow from pursuit of this strategy.

The directors have mandated an International Advisory Board to assist the Board with strategic guidance in respect of the growing international activities of the Group. We have secured the interest of high-level African and global non-executives to participate with Murray & Roberts in this respect and appointments will be notified in due course.

Leadership Development

Sean Flanagan will take responsibility for the Group's investment in Cementation Africa and its integration with Murray & Roberts RUC. Bringing together 10 000 people and different cultures serving a market that is undergoing significant transformation, will present Sean with his fair share of challenges. Sean was managing director of Murray & Roberts Engineering Solutions for the past seven years, where he was primarily responsible for the world class delivery of the aluminium smelter programme.

Stephen Pell has been tasked to further integrate the Group's domestic and regional construction operations into a single company, combining building, construction & roads with the Group's civil, mechanical, electrical & instrumentation operations.

Peter Adams has been appointed managing director of Murray & Roberts United Kingdom and operations director of Murray & Roberts International. His corporate responsibilities are Murray & Roberts Contractors Middle East, Cementation Canada and the North Africa operations of Murray & Roberts International.

Malose Chaba is appointed managing director of Murray & Roberts Engineering Solutions and is tasked with redirecting the company to fulfil a different and strategic role in the Group. He will shift focus from industrial to power & energy, enhance access to mining & minerals processing markets in Africa and Australasia, the latter in partnership with Clough, and partner all Group companies with proven mega-project procurement and integration systems.

Edwin Hewitt is the Group's most experienced manufacturing executive and following his success with Murray & Roberts Foundries Group, we anticipate that he will assume a greater leadership role in this sector over the year ahead.

Norbert Jorek joined the Group as corporate executive responsible for strategy development, including work procurement, acquisitions and empowerment. This is a critical partnership role to me and I am pleased that the directors have approved his appointment to the

Board of Murray & Roberts Holdings. Norbert managed the final transaction process with Clough and he will join me on the Clough board with executive responsibility for the investment and fulfilment of the operating joint venture with Roland Berndt.

Terry Rensen is appointed to lead the formalisation of risk management in the Group, in terms of a risk management framework approved by the Board. He has corporate responsibility for group benefits and the Group's insurance portfolio.

Millard Arnold has enhanced his role as legal counsel to the group chief executive and Board. He plays an increasing role in company secretarial matters, specifically relating to legal and regulatory compliance. He is acting as company secretary.

Craig Lawrence recently joined the Group as corporate executive responsible for human capital development. He has been appointed to the Board of Murray & Roberts Limited and will also assume responsibility for corporate social involvement.

Vanida Lennon has joined the Group as corporate executive responsible for health, safety and environmental management. This is a role she filled with distinction at Eskom and more recently at Transnet. Globalising Murray & Roberts will place significant emphasis on this aspect of our commitment to world class fulfilment. As it is primarily about people and attitude, Vanida will partner Craig in pursuit of our strategic objectives in this respect.

Prospects

Globalising Murray & Roberts has been adopted as the growth strategy that will re-energise the Group's commitment to sustainable earnings growth and value creation.

The primary focus of the Group is to serve the construction economies of the less developed world, with a secondary involvement leveraging South African competitiveness, primarily through industrial manufacturing. New areas of opportunity are being sought in the oil & gas sector, with extensions of existing capability in mining & industrial and construction materials.

The Group is currently involved in tendering for a number of mega-project opportunities in the Middle East and South Africa. These include major building projects and airport expansions, power generation facilities, transport systems and others.

The demand for construction materials in South Africa is expected to remain buoyant through the year ahead. It must still be tested, however, whether the risk of new investment to increase current production capacity is justified by future market confidence. We will watch the primary cement producers with interest in this respect.

In addition to the R1,9 billion order book brought through Cementation, the Group is confident that further opportunity will materialise as global and domestic resources groups expand capacity to meet increased global demand for commodities. Expansion is planned for the energy generation capacity of South Africa and transport infrastructure is in need of significant upgrade to meet economic development targets. These will require increased public private partnership activity.

With a lower interest rate and inflation regime, the Group is positive that market conditions will improve during the year ahead, but does not expect any significant increase in foreign direct investment into South Africa. This will depress major project activity, especially in the industry and mining sector. Growth will again be driven by government investment into infrastructure and commercial investment into buildings and residential accommodation.

International markets of interest to the Group are expected to grow in line with a resurgence of economic activity in South and Southeast Asia and demand from China. The Middle East follows its own dynamic, driven primarily by energy, with increasing attention to the benefits of diversification into minerals extraction, tourism and services.

The pro forma income statement and balance sheet on page 3 offers a baseline model for the group at 30 June 2004, assuming the sale of Unitrans and acquisition of Cementation and Clough from 1 July 2003. Although it is earnings dilutionary in the short-term, this model indicates the greater growth potential of a more focused group off new business platforms.

Acknowledgement

Roy Andersen became chairman in January 2004, only the second independent chairman of Murray & Roberts since Bill de la Harpe Beck, who sadly passed away during the year. I wish to thank Roy for the energy and commitment he brings to the company and for his current role in leading the enhancement of the Board in preparation for Globalising Murray & Roberts.

I wish to thank the independent directors of Murray & Roberts, including those who retired or resigned during the year, for their wise support and guidance to my colleagues and I.

Murray & Roberts can never again be managed remotely. Our industry and market is naturally turbulent, requiring full-time and hands-on management, attention to detail, resilience and energy.


I have once again brought new executives into the Group during the year, thus enhancing the core leadership team in preparation for the journey ahead. This has been a challenging year across many dimensions and I thank my colleagues for the work they have done and the energy they have expended to lead us through.

Each member of the leadership team fulfils many important roles in the affairs and conduct of the Group. Roger Rees in finance, acquisitions and disposals; Keith Smith, Sean Flanagan, Stephen Pell and Peter Adams in operations, work procurement, health and safety; Millard Arnold as legal counsel and in commercial and secretarial; Terry Rensen in risk management, group benefits, insurance and acquisitions; Norbert Jorek in strategy, work procurement, acquisitions and empowerment and now Craig Lawrence in human capital and corporate social involvement.

Roland Berndt resigned from the Board of Murray & Roberts Limited and stepped down as group chief engineer to emigrate to Australia where he will lead our joint venture with Clough. I have worked closely with Roland since 1996 and I thank him for his contribution as a member of our team and wish him well in his new role.

I am conscious of the incredible effort many executives and staff not named in this report, put into Murray & Roberts every working day. These are the unsung heroes of our Group, regularly working above and beyond the normal call of duty in pursuit of our performance and strategic objectives. I know who most of them are and I trust that my colleagues and I set a standard of leadership performance that makes it worthwhile.

Finally, I acknowledge the support and commitment of our many business partners, customers and investors, all of whom contribute to the fortunes of our Group.



Brian Bruce
Group Chief Executive