

Accounting policies

for the year ended 30 June 2006

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below and have been applied consistently to all periods presented as well as in preparing the opening International Financial Reporting Standards (IFRS) balance sheet at 1 July 2004.

BASIS OF PREPARATION

These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of non-trading financial asset investments, financial assets and financial liabilities held-for-trading, and financial assets designated as fair value through profit and loss. Non-current assets and disposal groups held-for-sale, where applicable, are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements, and significant estimates made in the preparation of these consolidated financial statements are discussed in note 49.

Standards, interpretations and amendments to published standards that are not yet effective as well as those early adopted by the Group are discussed in note 50.

STATEMENT OF COMPLIANCE

These consolidated financial statements are prepared in accordance with IFRS and Interpretations adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. These are the Group's first IFRS consolidated financial statements and IFRS 1: *First-time Adoption of IFRS*, has been applied. Consolidated financial statements of the Group until 30 June 2005 had been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SAGAAP). SAGAAP differs in certain respects from IFRS.

BASIS OF TRANSITION TO IFRS AND CHANGES IN ACCOUNTING POLICIES

When preparing these consolidated financial statements, management has amended certain accounting, valuation and consolidation methods and policies applied in the SAGAAP financial statements to comply with IFRS. The comparative figures in respect of 2005 were restated to reflect these adjustments. Reconciliations and descriptions of the effect of the transition from SAGAAP to IFRS and the subsequent changes in accounting policies on the Group's equity and its net profit are given in note 51 to the consolidated financial statements.

BASIS OF CONSOLIDATION

The Group consists of the consolidated financial position and the operating results and cash flow information of Murray & Roberts Holdings Limited (the company), its subsidiaries, its interest in joint ventures, and its interest in associates.

Subsidiaries

Subsidiaries are entities, including special purpose entities such as The Murray & Roberts Trust, controlled by the Group. Control exists where the Group, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities generally accompanying an interest of more than one-half of the voting rights. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Subsidiaries are never excluded from consolidation. If a subsidiary is acquired but control is expected to be temporary because the intention is that the subsidiary will be sold within 12 months from acquisition, the acquired subsidiary is still consolidated but is accounted for as a disposal group or a discontinued operation.

The results of subsidiaries are included for the period during which the Group exercises control over the subsidiary.

If a subsidiary uses accounting policies other than those adopted in these consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

Minority interests in the net assets of consolidated subsidiary companies are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and

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the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary company's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Joint ventures

Joint ventures are contractual agreements whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. These joint ventures may take the form of jointly controlled operations such as construction contracts, jointly controlled assets, jointly controlled partnerships or companies.

Joint ventures are accounted for by means of the proportionate consolidation method whereby the Group's share of the assets, liabilities, income, expenses and cash flows of joint ventures are included on a line by line basis in the consolidated financial statements.

The results of joint ventures are included for the period during which the Group exercises joint control over the joint venture.

If a joint venture uses accounting policies other than those adopted in these consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group interest in the joint venture, except where unrealised losses provide evidence of an impairment of the assets.

Associates

Companies in which the Group actively participates in the commercial and financial policy decisions and thereby exercises a significant influence, and which are not classified as subsidiaries or joint ventures are regarded as associates.

The Group's share of the results of these companies is included in the consolidated financial statements using the equity method. Attributable earnings since acquisition, less dividends received, are added to the carrying value of the investments in these companies.

The group interest in associate companies is carried in the balance sheet at an amount that reflects its share of the net assets and the portion of goodwill on acquisition.

Where objective evidence of impairment exists, the carrying value of the investment in an associate (including any goodwill) is assessed against its recoverable amount, and written down to the expected recoverable amount, where applicable.

The results of associates are included for the period during which the Group exercises significant influence over the associate.

If an associate uses accounting policies other than those adopted in these consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Where the Group transacts with an associate, unrealised profits and losses are eliminated to the extent of its interest in the associate, except where unrealised losses provide evidence of an impairment of the asset.

The Group considers the carrying value of its investment in the equity of the associate and its other long term interests in the associate, such as equity loans, when recognising its share of losses of the associate.

Adjustments are made to the carrying value of the investment for any changes in the equity of the associate that have not been recognised in its income statement. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of those changes is recognised directly in equity.

Stand-alone company's financial statements

In the stand-alone accounts of the company, the investment in a subsidiary company is carried at cost less accumulated impairment losses, where applicable.

FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). For the purpose of the consolidated financial statements, the results and the financial position of each entity are expressed in Rand, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions.

Foreign currency monetary items

Monetary assets denominated in foreign currencies are retranslated into the functional currency at the bid rate of exchange ruling at the balance sheet date. Exchange differences arising on retranslation are credited to or charged against income.

Monetary liabilities denominated in foreign currencies are retranslated into the functional currency at the offer rate of exchange ruling at the balance sheet date. Exchange differences arising on retranslation are credited to or charged against income.

Monetary group assets and liabilities (being group loans, call accounts, equity loans, receivables and payables) denominated in foreign currencies are retranslated into the functional currency at the mid rate of exchange ruling at the balance sheet date. Exchange differences arising on retranslation are credited to or charged against income except for those arising on equity loans that are denominated in the functional currency of either party involved. In those instances, the exchange differences are taken directly to equity as part of the foreign currency translation reserve.

Exchange differences arising on the settlement of monetary items are credited to or charged against income.

Foreign currency non-monetary items

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Exchange differences arising on retranslation are credited to or charged against income except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such items, any exchange component of that gain or loss is also recognised directly in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign entities

The results and financial position of foreign entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities, at rates of exchange ruling at the balance sheet date
- income, expenditure and cash flow items at average rates

All resulting exchange differences are reflected in equity as part of the foreign currency translation reserve. On disposal of a foreign entity, the cumulative translation differences relating to that entity are recognised in the income statement as part of the cumulative gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and retranslated at the rates of exchange ruling at the balance sheet date.

Any exchange difference arising on an intra-group monetary item, whether short term or long term, continues to be recognised as income or an expense since the monetary item represents a commitment to convert one currency into another and exposes the Group to a gain or loss through currency fluctuations. However, exchange differences arising on a monetary item that, in substance, forms part of the Group's net investment in a foreign entity are classified as equity until the disposal of the net investment at which time the cumulative amount of the exchange differences that have been deferred and relate to that foreign entity are recognised as income or expense in the same period in which the gain or loss on disposal is recognised.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised on the balance sheet when the Group has become a party to the contractual provisions of the instruments. Purchases and sales of financial instruments are recognised on trade date, being the date on which the Group commits to purchase or sell the instrument.

Loans and receivables

Loans and receivables are stated at amortised cost. Amortised cost represents the original invoice amount less principle repayments received, the impact of discounting to net present value and a provision for impairment, where applicable.

The provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the loan or receivable.

When a loan has a fixed maturity date but carries no interest, the carrying value reflects the time value of money, and the loan is discounted to its net present value. The unwinding of the discount is subsequently reflected in the income statement as part of interest income.

Trade receivables

Trade receivables are initially recognised at fair value, and are subsequently classified as loans and receivables and measured at amortised cost using the effective interest rate method.

The provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of the credit given and includes an assessment of recoverability based on historical trend analysis and events that exist at balance sheet date. The amount of the provision is the difference between the carrying value and the present value of

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estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

Contract receivables and retentions

Contract receivables and retentions are initially recognised at fair value, and are subsequently classified as loans and receivables and measured at amortised cost using the effective interest rate method.

Contract and retention receivables comprise amounts due in respect of certified or approved certificates by the client or consultant at the balance sheet date for which payment has not been received, and amounts held as retentions on certified certificates at the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts are not offset against positive bank balances unless a legally enforceable right of offset exists, and there is an intention to settle the overdraft and realise the net cash simultaneously, or to settle on a net basis.

All short term cash investments are invested with major financial institutions in order to manage credit risk.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments

Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Non-trading financial liabilities

Non-trading financial liabilities are recognised at amortised cost. Amortised cost represents the original debt less principle payments made, the impact of discounting to net present value and amortisations of related costs.

Trade payables

Trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. Trade payables are initially recognised at fair value, and are subsequently classified as non-trading financial liabilities and carried at amortised cost using the effective interest rate method.

Subcontractor liabilities

Subcontractor liabilities represent the actual unpaid liability owing to subcontractors for work performed including retention monies owed. Subcontractor liabilities are initially recognised at fair value, and are subsequently classified as non-trading financial liabilities and carried at amortised cost using the effective interest rate method.

Investments

Service concession investments are designated as fair value through profit and loss. All other investments are classified as non-trading financial assets or loans and receivables and accounted for accordingly.

Financial assets designated as fair value through profit and loss

Financial assets designated as fair value through profit and loss are stated at fair value. Resulting gains or losses are recognised in the income statement.

Where management has identified an objective evidence of impairment, provision is raised against the investment if the carrying value exceeds the recoverable amount.

Non-trading financial asset investments

Non-trading financial asset investments are stated at fair value. Resulting gains or losses are recognised as a fair value reserve in the statement of changes in equity until the asset is disposed of or impaired, when the cumulative gain or loss is recognised in the income statement.

Where management has identified an objective evidence of impairment, provision is raised against the investment if the carrying value exceeds the recoverable amount.

Derivative financial instruments

Derivative financial instruments are initially measured at fair value at the contract date, which includes transaction costs. Subsequent to initial recognition derivative instruments are stated at fair value with the resulting gains or losses recognised in the income statement.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses recognised in the income statement.

Where a legally enforceable right of offset exists for recognised derivative financial assets and liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

The Group generally makes use of three types of derivatives, being foreign exchange contracts, interest rate swap agreements and embedded derivatives. The majority of these are used to hedge the financial risks of recognised assets and liabilities, unrecognised forecasted transactions or unrecognised firm commitments (hereafter referred to as economic hedges).

Hedge accounting is not necessarily applied to all economic hedges but only where management made a decision to designate the hedge as either a fair value or cash flow hedge and the hedge qualifies for hedge accounting.

Economic hedges where no hedge accounting is applied

When a derivative instrument is entered into as a hedge, all fair value gains or losses are recognised in the income statement.

Economic hedges where hedge accounting is applied

Hedge accounting recognises the offsetting effects of the hedging instrument (i.e. the derivative) and the hedged item (i.e. the item being hedged such as a foreign denominated liability).

Hedges can be designated as fair value hedges, cash flow hedges, or hedges of net investments in foreign entities.

Fair value hedges

When a derivative instrument is entered into and designated as a fair value hedge, all fair value gains or losses are recognised in the income statement.

Changes in the fair value of a hedging instrument that is highly effective and is designated and qualifies as a fair value hedge, are recognised in profit and loss together with the changes in the fair value of the related hedged item.

Cash flow hedges

Where a derivative instrument is entered into and designated as a cash flow hedge of a recognised asset, liability or a highly probable forecasted transaction, the effective part of any gain or loss arising on the derivative instrument is recognised as part of the hedging reserve until the underlying transaction occurs. The ineffective part of any gain or loss is immediately recognised in the income statement.

If the underlying transaction occurs and results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity must be reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as in the periods that interest income or interest expense is recognised). However, if the Group expects that all or a portion of a loss recognised directly in equity will not be recovered in one or more future periods, it shall reclassify into the income statement the amount that is not expected to be recovered.

If the underlying transaction occurs and results in the recognition of a non-financial asset or a non-financial liability, or a forecasted transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated gains or losses that were recognised directly in equity are included in the initial cost or other carrying value of the asset or liability.

CONTRACTS-IN-PROGRESS

Contracts-in-progress represent those costs recognised by the stage of completion of the contract activity at the balance sheet date.

Anticipated losses to completion are deducted.

Advance payments received

Advance payments received are assessed on initial recognition to determine whether it is probable that it will be repaid in cash or another financial asset. In this instance, the advance payment is classified as a non-trading financial liability that is carried at amortised cost. If it is probable that the advance payment will be repaid with goods or services, the liability is carried at historic cost.

BUSINESS COMBINATIONS AND GOODWILL ON ACQUISITIONS

The Group uses the acquisition method to account for the acquisition of businesses.

Goodwill is recognised as an asset at the acquisition date of a business, subsidiary, associate or jointly controlled entity. Goodwill on the acquisition of a subsidiary and joint venture company is included in intangible assets. Goodwill on the acquisition of an associate company is included in the investment in associates.

In respect of business acquisitions that have occurred since 1 July 2004, goodwill is measured at cost, being the excess of the cost of the acquisition over the interest in the fair value of the assets, including identified intangible assets, liabilities and contingent liabilities acquired and recognised. In respect of acquisitions prior to this date, goodwill, where applicable, is included on the basis of its deemed cost, which represents the amount recorded under SAGAAP.

Goodwill is not amortised. Instead, an impairment test is performed annually or more frequently if circumstances indicate that it might be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the business combination. Any impairment loss of the cash-generating unit is first allocated against the goodwill and thereafter against the other assets of the cash-generating unit on a *pro rata* basis.

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Whenever negative goodwill arises, the identification and measurement of the acquired identifiable assets, liabilities and contingent liabilities is reassessed. If negative goodwill still remains, it is recognised in the income statement immediately.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable goodwill is included in the determination of the profit or loss on disposal. The same principle is applicable for partial disposals, in other words a portion of the goodwill is expensed as part of the cost of disposal.

INTANGIBLE ASSETS OTHER THAN GOODWILL

An intangible asset is an identifiable, non-monetary asset that has no physical substance. An intangible asset is recognised when it is identifiable; the Group has control over the asset; it is probable that economic benefits will flow to the Group; and the cost of the asset can be measured reliably.

Computer software

Acquired computer software that is significant and unique to the business is capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programmes are capitalised as intangible assets only if they qualify for recognition. In all other cases these costs are recognised as an expense as incurred.

Costs that are directly associated with the development and production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

Computer software is amortised on a systematic basis over its estimated useful life from the date it becomes available for use.

Research and development

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products and technology) are capitalised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably.

Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not capitalised as an asset in a subsequent period.

Development costs that have a finite useful life and that have been capitalised are amortised from the commencement of the commercial production of the product on a systematic basis over the period of its expected benefit.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred and is not capitalised.

Subsequent expenditure

Subsequent costs incurred on intangible assets are included in the carrying value only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a systematic basis over the estimated useful lives from the date that they are available for use unless the useful lives are indefinite. Intangible assets with indefinite lives are tested annually for impairment.

The average amortisation periods are set out in note 4.

PROPERTY, PLANT AND EQUIPMENT

Property plant & equipment are tangible assets that the Group holds for its own use or for rental to others and which the Group expects to use during more than one period. Property, plant and equipment could be constructed by the Group or purchased from other entities. The consumption of property, plant and equipment is reflected through a depreciation charge designed to reduce the asset to its residual value over its useful life.

Measurement

All property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, except for land, which is stated at cost less accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item and includes transfers from equity of any gains or losses on qualifying cash flow hedges of currency purchases of property, plant and equipment.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at that revaluation.

Subsequent costs

Subsequent costs are included in an asset's carrying value only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Day-to-day servicing costs are recognised in the income statement in the year incurred.

Revaluations

Property, plant and equipment are not revalued.

Components

The amount initially recognised in respect of an item of property, plant and equipment is allocated to its significant components and where they have different useful lives, are recorded and depreciated separately. The remainder of the cost, being the parts of the item that are individually not significant or have similar useful lives, are grouped together and depreciated as one component.

Depreciation

Depreciation is calculated on the straight-line or units of production basis at rates considered appropriate to reduce the carrying value of each component of an asset to its estimated residual value over its estimated useful life. The average depreciation periods are set out in note 1.

Depreciation commences when the asset is ready for its intended use and ceases when the asset is derecognised or classified as held-for-sale.

The useful life and residual value of each component is reviewed annually at year end and, if expectations differ from previous estimates, adjusted prospectively as a change in accounting estimate.

Impairment

Where the carrying value of an asset is greater than its estimated recoverable amount, an impairment provision is raised immediately to bring the carrying value inline with the recoverable amount.

Dismantling and decommissioning costs

The cost of an item of property, plant and equipment includes the initial estimate, where relevant, of the costs of its dismantlement, removal, or restoration of the site on which it was located, the obligation which the Group incurs as a consequence of installing the item or having used the item during a particular period for purposes other than to produce inventories.

IMPAIRMENT OF ASSETS

At each balance sheet date the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the asset is tested for impairment by estimating the recoverable amount of the related asset. Irrespective of whether there is any indication of impairment, an intangible asset with an indefinite useful life, intangible assets not yet available for use and goodwill acquired in a business combination, are tested for impairment on an annual basis.

When performing impairment testing, the recoverable amount is determined for the individual asset for which an objective

indication of impairment exists. If the asset does not generate cash inflows from continuing use that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

INVESTMENT PROPERTY

Investment property is any land, building or part thereof that is either owned or leased by the Group under a finance lease for the purpose of earning rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, for administrative purposes, or sale in the ordinary course of business. This classification is performed on a property-by-property basis.

Initially, investment property is measured at cost including all transaction costs. Subsequent to initial recognition investment property is stated at cost less accumulated depreciation and accumulated impairment losses, where applicable.

Investment property is derecognised when it has either been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any gain or loss on the derecognition of an investment property is recognised in the income statement in the year of derecognition.

NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS

Non-current assets, disposal groups, or components of an enterprise are classified as held-for-sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets, disposal groups, or components of an enterprise classified as held-for-sale are stated at the lower of their previous carrying value and fair value less costs to sell.

An impairment loss, if any, is recognised in the income statement for any initial and subsequent write-down of the carrying value to fair value less costs to sell. Any subsequent increase in fair value less cost to sell is recognised in the income statement to the extent that it is not in excess of the previously recognised cumulative impairment losses. The impairment loss recognised reduces the carrying value of the non-current assets first to goodwill allocated to the disposal group, and the remainder to the other assets of the disposal group *pro rata* on the basis of the carrying value of each asset in the disposal group.

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Assets such as inventory and financial instruments allocated to a disposal group will not absorb any portion of the write-down as they are assessed for impairment per the relevant accounting policy involved. Any subsequent reversal of an impairment loss should be to these other assets of the disposal group *pro rata* on the basis of the carrying value of each asset in the unit (group of units), but not to goodwill.

Assets held-for-sale are not depreciated or amortised. Interest and other expenses relating to the liabilities of a disposal group continue to be recognised.

When the sale is expected to occur beyond one year, the costs to sell are measured at their present value. Any increase in the present value of the costs to sell that arises from the passage of time is presented in profit or loss as an interest expense.

Non-currents assets, disposal groups or components of an enterprise that are classified as held-for-sale are presented separately on the face of the balance sheet. The sum of the post-tax profit or loss of the discontinued operation, and the post-tax gain or loss on the remeasurement to fair value less costs to sell is presented as a single amount on the face of the income statement.

INVENTORIES

Inventories comprise raw materials, properties for resale, consumable stores and in the case of manufacturing entities, work-in-progress and finished goods. Consumable stores include minor spare parts and servicing equipment that are either expected to be used over a period less than 12 months or will be used for general servicing purposes. Consumable stores are recognised in the income statement as consumed.

Inventories are valued at the lower of cost and net realisable value.

The cost of inventories is determined using the following cost formulas:

- raw materials – first-in, first-out or weighted average cost basis
- finished goods and work-in-progress – cost of direct materials and labour including a proportion of factory overheads based on normal operating capacity

For inventories with a different nature or use to the Group, different cost formulas are used. The cost of inventories includes transfers from equity of any gains or losses on qualifying cash flow hedges of currency purchase costs, where applicable.

In certain business operations the standard cost method is used. The standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation.

These are regularly reviewed and, if necessary, revised in the light of current conditions. All abnormal variances are immediately expensed as overhead costs. All under absorption of overhead costs is expensed as a normal overhead cost, while over absorption is adjusted against the inventory item or the cost of sales if already sold.

Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

LEASES

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised. All other leases are classified as operating leases. The classification is based on the substance and financial reality of the whole transaction rather than the legal form. Greater weight is therefore given to those features which have a commercial effect in practice. Leases of land and buildings are analysed separately to determine whether each component is an operating or finance lease.

Finance leases

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the balance sheet at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Any direct cost incurred in negotiating or arranging a lease is added to the cost of the asset. The present value of the cost of decommissioning, restoration or similar obligations relating to the asset are also capitalised to the cost of the asset on initial recognition. The discount rate used in calculating the present value of minimum lease payments is the rate implicit in the lease.

Capitalised leased assets are accounted for as property, plant and equipment. They are depreciated using the straight-line or unit of production basis at rates considered appropriate to reduce the carrying values over the estimated useful lives to the estimated residual values. Where it is not certain that an asset will be taken over by the Group at the end of the lease, the asset is depreciated over the shorter of the lease period and the estimated useful life of the asset.

Finance lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are charged to operating costs as they become due.

Operating leases

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term. In negotiating a new or renewed operating lease, the lessor may provide incentives for the Group to enter into the agreement, such as up front cash payments or an initial rent-free period.

These benefits are recognised as a reduction of the rental expense over the lease term, on a straight-line basis.

HEADLEASES

All headleases in which the Group has a controlling interest in the property at the end of the lease are classified as finance leases. All other headleases are classified as onerous operating leases.

Finance headleases

Headlease assets, where part of finance headleases, are capitalised as investment property at their fair values and a corresponding liability is raised.

Land is not depreciated. Buildings are depreciated using the straight-line basis at rates considered appropriate to reduce the carrying values over the estimated useful lives to the estimated residual values.

Operating headleases

A long term provision is raised in respect of the onerous headleases that are classified as operating headleases and is based on the projected losses being the difference between the gross headlease commitments and the projected net revenue inflows. Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If a present obligation does not exist, the provision is not raised but rather treated as a contingent liability.

Provisions are measured at the directors' best estimate of the expenditure required to settle that obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions are reflected separately on the face of the balance sheet and are separated into their long term and short term portions. Contract provisions are, however, deducted from contracts in progress.

Provisions for future expenses are not raised, unless supported by an onerous contract, being a contract in which unavoidable costs will be incurred in meeting contract obligations in excess of the economic benefits expected to be received from the contract.

CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present

obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

CONTINGENT ASSETS

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

In the ordinary course of business the Group may pursue a claim against a subcontractor or client.

Such contingent assets are only recognised in the financial statements where the realisation of income is virtually certain. If the inflow of economic benefits is only probable, the contingent asset is disclosed as a claim in favour of the Group but not recognised on the balance sheet.

SHARE-BASED PAYMENT TRANSACTIONS

An expense is recognised where the Group receives goods or services in exchange for shares or rights over shares (equity-settled transactions) or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash-settled transactions).

Employees, including directors, of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using binomial lattice and Monte Carlo models. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Group (market conditions). The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, on a straight-line basis over the period in which the non-market performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

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No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

EMPLOYEE BENEFITS

Defined contribution plans

Under defined contribution plans the Group's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Consequently, the actuarial risk that benefits will be less than expected and the investment risk that assets invested will be insufficient to meet expected benefits is borne by the employee. Such plans include multi-employer or state plans.

Employee and employer contributions to defined contribution plans are recognised as an expense in the year in which incurred.

Defined benefit plans

Under defined benefit plans, the Group has an obligation to provide the agreed benefits to current and former employees. The actuarial and investment risks are borne by the Group. A multi-employer plan or state plan that is classified as a defined benefit plan, but for which sufficient information is not available to enable defined benefit accounting, is accounted for as a defined contribution plan.

For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses that exceed 10% of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets are amortised over the expected average working lives of participating employees.

The current service cost in respect of defined benefit plans is recognised as an expense in the year to which it relates. Past-service costs, experience adjustments, effects of changes in actuarial assumptions and plan amendments in respect of existing employees are expensed over the remaining service lives of these employees. Adjustments relating to retired employees are expensed in the year in which they arise. Deficits arising on these funds, if any, are recognised immediately in respect of retired employees and over the remaining service lives of current employees.

The defined benefit obligation recognised in the balance sheet, if any, represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to the item of property, plant and equipment and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

TAXATION

Income taxation expense represents the sum of the taxation currently payable and deferred taxation.

Current taxation

The taxation currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes

items that are never taxable or deductible. The Group's liability for current taxation is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition, other than in a business combination, of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiary and associate companies, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

The carrying amount of a deferred taxation asset are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the taxation rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred taxation is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also charged or credited directly to equity.

Deferred taxation assets and liabilities are offset when there is a legal enforceable right to offset current tax assets against liabilities and when the deferred taxation relates to the same fiscal authority.

RELATED PARTIES

Related parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning,

directing, and controlling the activities of the Group, directly or indirectly, including all executive and non-executive directors.

Related party transactions are those where a transfer of resources or obligations between related parties occurs, regardless of whether or not a price is charged.

REVENUE

Revenue is the aggregate of the turnover of subsidiaries and the Group's share of the turnover of joint ventures, and is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of rebates, discounts and sales related taxes.

Sale of goods

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Rendering of services

Revenue from services is recognised over the period during which the services are rendered.

Interest and dividend income

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

Dividend income is recognised when the right to receive payment is established.

Long term and construction contracts

Where the outcome of a long term and construction contract can be reliably measured, revenue and costs are recognised by reference to the stage of completion of the contract at the balance sheet date, as measured by the proportion that contract costs incurred for work to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that collection is probable and the amounts can be reliably measured. Anticipated losses to completion are immediately recognised as an expense in contract costs.

Where the outcome of the long term and construction contracts cannot be estimated reliably, contract revenue is recognised to the extent that the recoverability of incurred costs is probable.

EXCEPTIONAL ITEMS

Exceptional items are material items which derive from events or transactions that fall outside the ordinary trading activities of the

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Group and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

BORROWING COSTS

Borrowing costs are not capitalised but recognised in the income statement in the period incurred.

DIVIDENDS

Dividends are accounted for on the date of declaration and are not accrued as a liability in the financial statements until declared.

SEGMENTAL REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's primary format for reporting segmental information is determined in accordance with the nature of business and its secondary format is determined with reference to the geographical location of the operations.

Inter-segment transfers

Segment revenue, segment expenses and segment results include transfers between business segments and between geographical segments. Such transfers are accounted for at arms-length prices. These transfers are eliminated on consolidation.

Segmental revenue and expenses

All segment revenue and expenses are directly attributable to the segments. Segment revenue and expenses are allocated to the geographic segments based on the location of the operating activity.

Segmental assets

All operating assets used by a segment, principally property, plant and equipment, investments, inventories, contracts in progress, and receivables, net of allowances. Cash balances are excluded. Segment assets are allocated to the geographic segments based on where the assets are located.

Segmental liabilities

All operating liabilities of a segment, principally accounts payable, subcontractor liabilities and external interest bearing borrowings.

BLACK ECONOMIC EMPOWERMENT

IFRS 2: *Share Based Payments* requires share-based payments to be recognised as an expense in the income statement. This expense is measured at the fair value of the equity instruments issued at the date of grant.

Letsema Bokamoso General Staff Trust

The estimated once-off expense is R87,3 million (excluding UST). This is based on the closing share price of R19,00 per share on 29 November 2005, the date on which the High Court sanctioned the scheme. This expense is recognised as an exceptional item in the income statement.

Letsema Vulindlela Black Executives Trust

Once selected black executives become beneficiaries of the Letsema Vulindlela Black Executives Trust and are granted Murray & Roberts shares in terms of their vesting rights, the fair value of these equity instruments, valued at the various dates on which the grants take place, are recognised as an expense over the related vesting periods.

Letsema Khanyisa Black Employee Benefits Trust and Letsema Sizwe Community Trust

These trusts are established as 100 year trusts. However, after the lock-in period ending 31 December 2015, they may, at the discretion of the trustees, be dissolved in which event any surplus in these trusts after the satisfaction of all the liabilities in these trusts will be transferred to organisations which engage in similar public benefit activities to these trusts, which may include the beneficiaries of these trusts. An IFRS 2 expense will have to be recognised at such point in time when this surplus is distributed to an independent public benefit organisation.