

▶ Chief Executive's Report to Stakeholders

My reports to stakeholders in 2000 and 2001 highlighted a number of challenges we set ourselves as a leadership team to meet the strategic promise of Rebuilding Murray & Roberts. We report back on our performance:

▶ A Line in the Sand – 2000

- **Face up to the problems impacting on our credibility**
Our share price performance continues to reflect the improved confidence of investors in our group, our leadership team and our Rebuilding Murray & Roberts strategy.
- **Implement a disposal strategy for non-core operations**
The disposals of Johnson Crane and Alloy Wheels International in the United Kingdom were completed in the year. We continue to seek a strategic solution for our investment in Unitrans Limited as well as Johnson Access, Johnson Arabia and Criterion Equipment.
- **Fix the problem operations**
Genrec has been unbundled and the operating units with promising business potential absorbed elsewhere in the group. Murray & Roberts Civils, Murray & Roberts Foundries Group, Booker Tate and Improvair Environmental Solutions performed below expectation in the year. Appropriate action has been taken to ensure future performance.
- **Define the brand identity of Murray & Roberts**
The value proposition embodied within the Murray & Roberts brand has been developed further during the year, supporting the unitary nature of our business strategy.
- **Integrate the corporate structure for unity**
Interaction and risk management have been improved throughout the group. The corporate office plays a greater leadership role, unifying strategy, human capital development, marketing and communications, and systems integration.
- **Attract young people into the business**
The age profile of our leadership team has been significantly reduced with the promotion and appointment of new executives. We have attracted new young executives throughout the organisation and have committed to an enhanced bursary programme.
- **Build around our core competencies for growth**
We have clearly defined the core value proposition for Murray & Roberts and have found increasing interest from our customers to engage greater levels of involvement based on the benefits of more integrated design and build solutions.
- **Improve the operating margins**
We achieved a further improvement in the year on our journey to exceed a benchmark operating margin of 5%. In so doing, we achieved our short-term target return on average shareholders funds.
- **Deliver growth in headline earnings**
We have once again exceeded our performance targets in the year under review and delivered Murray & Roberts' best ever nominal headline earnings result.



▶ A Stake in the Future – 2001

- **Extend the cultural transformation throughout the group**

The process of leadership mentoring and executive coaching has been extended further into the group during the year. Key operations executives and their leadership teams are now benefiting from the process. Where necessary, we have instituted management changes to release the deeper potential of the organisation.

All group publications including Robust, the Employee, Citizenship and Annual Reports, as well as the numerous presentations given by executive and knowledge leadership are framed within the strategic concepts of Rebuilding Murray & Roberts.

A billboard advertising campaign has been developed that captures the essence of Murray & Roberts' culture and its value proposition.

- **Establish targets that stretch our performance**

Performance targeting has become increasingly entrenched in the thinking and planning of all operations throughout Murray & Roberts. During the year we engaged a number of intervention strategies with those operations not delivering to our expectation.

We have benchmarked world best practice in all our market sectors, established stretch performance targets and, where necessary, restructured our operations.

- **Embrace risk management within our culture**

We have recognised that our greatest potential area of risk lies in the commercial terms embodied within contract conditions for the implementation of project and product commitments over extended periods of time. We are committed to the enhancement of our commercial management capability throughout the group.

The correct allocation of executive leadership into our operations is the most effective strategy for all dimensions of risk management.

- **Enhance our business model for leverage**

In Murray & Roberts' business model, we have concentrated our high-level value proposition between Projects and Products as forming two sides of the same coin. Each of these principle business sectors comprises two clusters which themselves include two market segments each.

In the Projects sector, Building & Civil Engineering and Industry & Mining hold equal status, as do Fabrication & Manufacture and Supplies & Services in the Products sector.

The medium-term development of the group will be in terms of this business model.



Brian Bruce

► Performance Review – 2002

"If a person is living out his destiny, he knows everything he needs to know. There is only one thing that makes a dream impossible to achieve: the fear of failure."

"I'm not afraid of failing. It's just that I don't know how to turn myself into the wind."

"Well, you'll have to learn; your life depends on it."

"But what if I can't?"

"Then you will die in the midst of trying to realise your destiny. That's a lot better than dying like millions of other people, who never even knew what their destinies were."

"But don't worry," the alchemist continued. "Usually the threat of dying makes people a lot more aware of their lives."

Paulo Coelho – The Alchemist

Rebuilding Murray & Roberts is the realisation of our destiny as a South African world class enterprise, committed to sustainable earnings growth and value creation, serving the development of emerging economies and nations, in particular those within Africa and where a value system in the context of sustainable development has been defined and is evident.

For 100 years Murray & Roberts has directly and indirectly created employment, developed skills, installed infrastructure, delivered services, applied technology and built capacity throughout southern and South Africa, making a significant contribution to the socio-economic development of the region.

In its delivery of major projects to developing economies and manufactured products to developed economies, Murray & Roberts embraces the principles of sustainable development that apply not only to the work we do in the context of the natural environment but that meet social and economic needs as well.

Our business performance in the year to 30 June 2002 underpins the strategic promise of Rebuilding Murray & Roberts. This is an intervention strategy introduced through my

appointment as group chief executive in July 2000 and is aimed at the fundamental transformation of Murray & Roberts over a five-year period, to ensure a sustainable business model for earnings growth and value creation into the future.

In the two years to date of Rebuilding Murray & Roberts, shareholder value has grown by more than R2,0 billion underpinned by an increase in net asset value of more than R900 million off an improvement of more than 400% in operating profit and an increase of more than R1,0 billion in cash resources.

Capital expenditure of more than R700 million over the past two years has enhanced the productive capacity of the group, creating a solid foundation for improved performance in the years ahead.

In this year, earnings grew strongly as a result of improved operating margins and excellent cash generation from good capital management, lifting the return on average shareholders' funds above our short-term target of 20%. This is a year ahead of plan and has enabled the company to resume dividend payments to shareholders.



In the two years of Rebuilding Murray & Roberts, shareholder value has **grown** by more than R2 billion

PERFORMANCE

The Murray & Roberts share stabilised at around 900 cents prior to release of our results for the year. The subsequent increase to around 1 050 cents is up 350% on the base price of 300 cents in the two years to date of Rebuilding Murray & Roberts.

The financial result for the year under review exceeds the best nominal performance in the history of Murray & Roberts, better than headline earnings in 1995 of 126 cents per share and total earnings in 1998 of 150 cents per share.

With a balance sheet that includes cash of R2,0 billion (equivalent to 600 cents per share), we can now believe that the Rebuilding Murray & Roberts performance profile is sustainable through the full implementation period to 30 June 2005.

However, we remain vulnerable in the short to medium term in respect of certain legacy problems that have continued to erode value in our group.

Starting with property headleases, we have raised further provisions totalling R58,0 million in the year to cover our regularly updated assessment of projected liabilities. We are confident that our conservative treatment of this challenge will minimise any significant risk in the period to 2007. We believe that in the remaining period to 2015, the realisation of the bare dominium asset will offset ongoing liabilities. More importantly, we have reduced our exposure post-2007 by half.

Finally, we have engaged rigorous resolutions for the following few operational legacies in the group. These companies and their management teams now reflect the values and integrity embodied in Rebuilding Murray & Roberts.

The Genrec group has been unbundled with effect from 30 June 2002 following many years as a marginal high-risk performer. The structural steel and the mechanical, electrical and instrumentation (MEI) contracting units offer promising business potential and have been absorbed elsewhere within

Murray & Roberts. The remainder of the business will be disposed or closed.

Murray & Roberts Foundries Group has been impacted by more than a decade of under-investment and inadequate management. A new leadership team has been appointed and a focused investment plan, supported by the Motor Industry Development Programme (MIDP), offers a new value proposition into the future.

This year, Murray & Roberts Civils realised the consequences of poor commercial and management decisions going back over the past five years. Long-term road contracts in Benin, Uganda and Mozambique have disappointed at completion. The N3 Toll Road faces a complex challenge to overcome the financial consequences of vehicle overloading on the various contracted parties. All current problems are now fully understood and provided for and a comprehensive recovery plan has been agreed. A good order book and focused intervention under new leadership will return this company to an acceptable value proposition.

Serving the developing world markets of Africa and Southeast Asia presents a challenging business environment. We have experienced payment difficulties in Kenya and Indonesia during the year, notwithstanding that we have met all our contracted obligations. Our investments in public companies listed in Harare and Nairobi have underperformed and we are proceeding cautiously with work in Nigeria.

The remainder of our operations have performed well. In particular, the merged building and civil engineering operations in South Africa delivered an improved performance in the year, assisted by completion of the Bloemfontein Prison contract. The Kwazulu-Natal operation has been scaled down following years of marginal performance.

International construction activities throughout SADC and in the Middle East also improved on last year, with increased levels of activity evident in the order book. We refocused our

management team in the Middle East and placed a stronger leadership team into Nigeria where commencement of our first major project awaits receipt of the contracted advance payment.

In general, our road building activities delivered an improved result in the year. In particular, the N4 Platinum Highway concession project is proceeding ahead of schedule and within budget. This is the largest road contract yet undertaken in South Africa.

Overall, we are confident that the work done this year in the sector will lead to an enhanced performance for the 2003 financial year.

Increased levels of fixed investment into major industry and natural resources projects throughout the SADC region underpinned another solid performance from the operations serving the industry and mining sector. Aluminium smelter, gold mine and fertilizer plant expansions, new manufacturing capacity, as well as platinum and energy-related developments have provided the opportunity landscape.

The incorporation of MEI capability into our engineering offering has further enhanced our potential for delivery of integrated design and build solutions into this market. We are confident of further performance improvements in the 2003 financial year.

The Ford RoCam project advanced to 75% full production in the year, placing some stress on our older foundry assets. The capital expenditure programme supporting the project has proceeded well, giving increased performance levels. We have tested all systems at full target production of 1 000 units per day.

The domestic and international demand for safety-critical transport systems serving both trade and commuter markets, has strengthened in recent times. In South Africa, there is strong commitment to refurbish the aging and often vandalised

rolling stock asset, although the consistent allocation of funding remains a challenge. The global demand for ISO tank containers has improved in the year.

Following the closure of AWI Canada in 2001, the sale of AWI in the United Kingdom brings finality to this globalisation misadventure. The AWI facility in Port Elizabeth delivered a good result this year and we expect a maiden performance at acceptable returns on investment in the year ahead.

The companies consolidated within supplies and services have shown a further meaningful improvement on last year's turnaround. A focus on working capital management has unlocked significant cash flow in the year. Improved activity in the domestic and regional construction sector has increased demand, with most operations delivering excellent results.

During the year, we have consolidated those operations involved in the conversion of primary steel to finished products into a single business unit which processed almost 800 000 tons in the year.

We plan further consolidation action in the year ahead, underpinning a further improvement in performance.

The disposal of Johnson Crane was completed in the year. Although a constant performer over many years, the company did not match the Murray & Roberts strategic value proposition.

HUMAN CAPITAL

Murray & Roberts has a formidable team of executive leadership, supported by a management depth and supervisory competence that ensures our capability to meet the performance targets that define world class fulfilment. I am privileged to lead such capacity.

The key members of our leadership team are highlighted on the following pages, including their specific areas of performance responsibility.



► Human Capital

Transformation is our fundamental challenge.

There will be no compromise in this respect.



The executive leadership team includes:

From left to right standing: Dan Modzelewski, Sean Flanagan, Barbara Friend, Lionel Lindsay, Stephen Pell.

From left to right sitting: Terry Rensen, Roland Berndt, Brian Bruce, Roger Rees, Keith Smith.

EXECUTIVE LEADERSHIP

The executive leadership team in Murray & Roberts continues to develop from both within the organisation and through the introduction of new talent from without. During the year we have further consolidated compatible operations to create significant global business strategies under the leadership of key senior executives.

Keith Smith (52) has continued the development of a focused range of businesses that supply to and service the construction, mining and industrial sectors in southern and South Africa. This includes the formulation of a significant steel conversion cluster. Keith also leads the development of a strategy to enlarge our total offering into the economies of all SADC countries and is responsible for all equity investments into project related infrastructure and industrial facilities.

Stephen Pell (44) has been appointed to the board of Murray & Roberts Limited from 1 September 2002. He has since January 2002 managed the consolidation of our domestic building and civil engineering operations and has led the integration of the Africa and Middle East operations into our international construction strategy. Stephen also leads the development of a strategy to expand our construction service offering into the growing oil and gas related markets of West Africa.

Sean Flanagan (43) initiated the consolidation of our engineering-related operations into a single business enterprise capable of a complete design and build offering to the mining and industry sectors and for marine infrastructure. The addition of MEI capability following rationalisation elsewhere in the group has significantly enhanced this total service offering. Sean also leads the development of a strategy for expansion into the markets of Australasia and Southeast Asia.

Geoff Turner (56) is responsible for management and integration of all business activity outside South Africa as managing director of Murray & Roberts International based in Gaborone, Botswana. He has corporate responsibility as project director for our activities in Bahrain and Egypt and for the establishment of a new operation in the emerging market of Angola.

KNOWLEDGE EXECUTIVES

The core principles underpinning a unitary framework for Murray & Roberts are held champion by a group of knowledge executives based in corporate office but with collective group-wide responsibility.

Dan Modzelewski (43) joined the group in July 2001 and has brought significant new insight from a technical leadership perspective related to procurement, supply-chain logistics and systems connectivity.

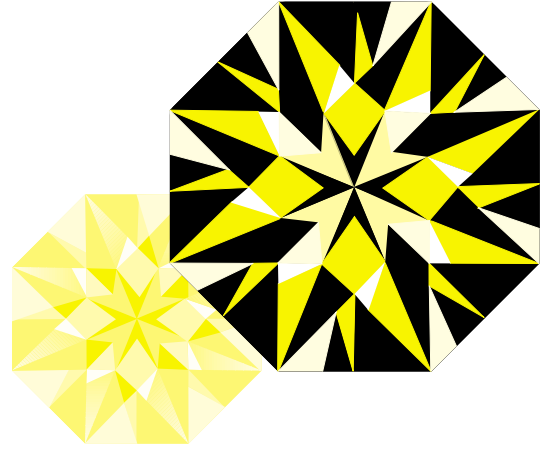
Barbara Friend (41) has accepted one of our most significant and complex leadership challenges for the years ahead, as champion of Human Capital development. The broad leadership team for Murray & Roberts beyond the tenure of current executives will grow from this initiative.

Roland Berndt (34) has taken the challenge to grow into the broader strategic demands of his role as knowledge leader for innovation and champion of industrial design as our core competence.

STRATEGIC KALEIDOSCOPE

A Unitary Murray & Roberts binds together all our people within a strategic framework depicted through our use of the kaleidoscope as a symbol. One dimension of our sustainable development challenge into the future is reflected through succession planning.

We have engaged the development of our human capital potential from the perspective of being South African, as well as to meet the requirements of our global aspiration. Our emerging leadership starts to reflect both, combining youth and energy with experience and wisdom, reflecting the societies in which we do business.



KEY OPERATIONS EXECUTIVES

A greater level of focus is directed into specific market sectors off a number of substantial performance platforms under the leadership of key operations executives, who have complete executive teams at their disposal.

Henry Laas (43), who joined the group in February 2001, is responsible for our worldwide underground mining contracting operations. He has rationalised the business to meet the world class demands of our global resources clients.

Bryan Dyer (53) joined the group in July 2001 and from his base in the United Kingdom, leads the transformation of our agricultural business from sugar alone to a focus on renewable resources and bio-energy development.

Terry Rensen (55) joined Murray & Roberts in January 2002 as group executive with corporate responsibility for the development of an integrated transport systems cluster embracing our capability in the design and build of ISO tank containers, rail coaches and traction units.

Edwin Hewitt (36) rejoined the group in August 2002 as responsible executive for the turnaround and future development of our foundry operations. He will focus the consolidated business on the automotive sector, building off our established expertise in grey iron and aluminium engine systems.

Rob Noonan (52) has executive responsibility for a number of operations that have been consolidated around the conversion of primary steel into finished products for the construction, mining and industrial markets.

Graham Mullany (47) joined the group in February 2002 as financial controller for our construction-related businesses. He fills an important strategic interface between corporate office and the key operations in this sector.

HIGH-LEVEL EXECUTIVE PROJECT DIRECTORS

Murray & Roberts has a proud history in the delivery of major projects throughout southern Africa and internationally. A major project is defined as any project where the challenge of fulfilment exceeds the inherent capacity of the organisation responsible for its delivery. In Murray & Roberts, this would arise, for instance, where a single project might exceed 50% of the business in the responsible operating unit.

Managing the risk of major projects requires leadership intervention and thoughtful structuring, often with joint venture partners and a project steering committee. The appointment of a high-level executive project manager is a prerequisite for success.

Peter Young (59) is responsible for the fulfilment of the RoCam project to Ford on behalf of Murray & Roberts. He has ensured the facilities and human capital expansion and upgrades necessary to meet the performance demand, working closely with corporate and operations management in partnership with Ford.

Duncan Barry (53) is responsible for the N3 and N4 Toll Road projects and for delivery of the Gautrain proposal and other concession opportunities on behalf of Murray & Roberts. These projects have complex partnership and financing structures with long-term operations and maintenance obligations.

► Performance Review – 2002 (continued)

UNITRANS

Unitrans reported a pleasing 21% increase in attributable earnings for the year, delivering a 20,1% return on our average investment. The company's share fared less well, closing 16,5% down on the previous year at 2 090 cents. To some extent this reflects the decline in the fortunes of the JSE but in our view undervalues the future potential of the business.

We are conscious of our responsibility to the minority shareholders of Unitrans, to ensure sound strategy, good governance and acceptable performance. Our investment in the company remains under strategic review and we continue to seek a solution that meets the best interest requirements of Murray & Roberts and its shareholders.

PROSPECTS

The challenge for the year ahead is to deliver the next stage of performance in Rebuilding Murray & Roberts. Although good

growth will still flow from the ongoing turnaround of under-performing operations, a material increase in earnings per share will result from real growth in revenues and a further improvement in profit margins.

We start the year with a project order book of R5,8 billion, up 53% on the previous year. There is particular strength in the mining and industry sector throughout the SADC region, in civil engineering throughout Africa and in building in the Middle East. Whereas the domestic building market is expected to remain flat throughout the year, the road building and maintenance market has improved appreciably.

The domestic economy is proving to be robust and higher levels of fixed investment in southern and South Africa offer increased levels of opportunity to our supplies and services businesses, all of which hold leading market positions in the region.

Our fabrication and manufacturing order books are at their best levels in many years. We are running full production lines in the

The corporate office is constantly reviewed as the unitary business model delivers improved value from the operations.

CORPORATE

As we have succeeded in establishing sound leadership teams in our key operations in the past year, so have we been able to shift the nature of the corporate office resource from centralised performance control to decentralised strategic engagement.

Corporate costs have shown a pleasing reduction in the year. The additional costs associated with our support of the 2002 World Summit on Sustainable Development and various NEPAD initiatives (approximately R6,0 million) have been covered by sundry revenue gains. Expenses in terms of our core Corporate Social Involvement programmes amounted to R5,0 million in the year.



manufacture of ISO tank containers and are busy with the refurbishment of railway coaches. MIDP continues to provide opportunity for the manufacture of automotive components for the global market. Our foundry operation is experiencing increased demand for engine components and the demand for alloy wheels has improved significantly.

We have worked on our value proposition throughout the year and wherever possible we seek to leverage our unique design and build capability on a partnership basis, offering best value pricing. This is a significant shift from traditional procurement processes that rely on lowest priced tender as the principle measure of value.

It is unfortunate that our industry is characterised as being driven by a need to just do work, without regard for long term shareholder returns or an appropriate level of reward relative to the risks involved. This is unsustainable and represents a past culture of value extraction rather than value creation.

We believe that sufficient opportunity will exist in our markets into the foreseeable future such that we can remain dedicated to improving the quality of performance in our market and investment sectors.

We have engaged a process to explore the best manner in which we can expand our business model and value proposition most effectively and sustainably into the developing markets of the world. These regions remain in a difficult economic condition, and our agricultural operations offer some insight into the challenges we face. We are confident that these markets hold good value in the context of the extraction, beneficiation and industrialisation of natural resources and the associated enabling infrastructure.

The world economy is experiencing a difficult period, with a great deal of tension surrounding the American market and that country's war on terror. Politics in the European Union seem on the move towards the right and the voice of the developing

Approximately R6,0 million was expensed on various strategic interventions supporting the Rebuilding Murray & Roberts process, some of which will be continued into the new financial year.

We established our international corporate office in Gaborone, Botswana during the year. Full accountability rests with this office to ensure that we meet all procedural and governance requirements relating to our international operations. International treasury responsibility remains with our office in the Isle of Man.

Exceptional items produced a net loss of R1,6 million in the year. Provisions amounting to R52 million in respect of warranties on disposals of businesses carried forward

from earlier years have been written back in the current year. An interim dividend of R9,0 million was received from the liquidation of AWI Canada. In the circumstances, it was considered prudent by the board to increase the property headlease provision by a total of R58 million for the year.

Through its listing on the Harare Stock Exchange, the Group holds 48% of the shares in Murray & Roberts (Zimbabwe) Limited. The company is not consolidated and the holding cost is reflected as a listed investment although it performs well in the context of the Zimbabwe economy. Our executive leadership participates actively in the direction of the company.

world is louder and more demanding. Stock markets are undergoing a significant revaluation, placing greater emphasis on tangible value.

We are South African. That is the commitment we make as business and corporate citizen. We will find the way in which to navigate our strategy through these troubled times in pursuit of our commitment to sustainable earnings growth and value creation.

The way forward looks good. Murray & Roberts is well set to deliver on its performance promise. We have performance targeted every aspect of our business and we will pursue our value proposition to the market with passion and vigour. We will continuously review and challenge those aspects within our business that are unable to meet our demanding performance criteria. We continue to build the leadership team that will ensure sustainable success into the future and we have committed the capital expenditure required by them to engage the market.

ACKNOWLEDGEMENTS

In writing this report, I have highlighted the core leadership team in Murray & Roberts and the significant responsibility and challenge they embrace in pursuit of our strategic value proposition. We are truly privileged to have such depth of capacity and dedication in the service of our investors, both shareholder and customer. I thank them for all they have achieved this year and for their ongoing commitment to our future development.

Roger Rees, Keith Smith, Sean Flanagan and Stephen Pell in particular, have taken proactive responsibility to lead Rebuilding Murray & Roberts as my partners and in the best interests of all our stakeholders. We enjoy a rigorous and open process of engagement and peer review that I trust will ensure

we do not place any "bricks in the wall" that might lead to future value destruction.

There are many executives and staff throughout the organisation who work under challenging physical and emotional conditions. I thank all of them, and their families, for their continued support and commitment to our company and customers.

In his statement, the chairman has acknowledged those senior executives who have left our employ since the last report.

It is our customers that make our business environment possible. Murray & Roberts is privileged to work with some of the world's leading corporations, many of whom have taken responsibility to redefine the basis under which capital investment projects are implemented.

Our business partners, too, have contributed to the success achieved in the year and are an integral element of our organisational capacity into the future.

The board committees in Murray & Roberts do much of the work to ensure that governance standards are applied in all aspects of the business. The remuneration, audit and risk management committees in particular have provided wise counsel and direction to the ongoing process of Rebuilding Murray & Roberts.



Brian Bruce

Group Chief Executive