

# 61st ANNUAL GENERAL MEETING

21 October 2009

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There is growing evidence that key aspects of the global economy are showing signs of recovery, with many commodity prices and volumes having lifted appreciably and stabilising off recent lows, global resources groups cautiously reintroducing new capital expansion plans and the banking sector is showing strong signs of recovery.

This recovery in key commodity prices has brought some stability to the Group's international markets through Clough, Middle East and Cementation. However, continuing strength of the South African currency will have a negative impact on the translation of these earnings.

General business conditions in the Group's South African markets have been slow through the first quarter of the new financial year, and the local economy is expected to take longer than previously forecast to emerge from the effects of recession. There is currently little private sector involvement in the South African market, which negatively impacts the short to medium term outlook for domestic mining, industrial and commercial project opportunity.

Public infrastructure projects have continued to support activity in the local market, with numerous programs underway to either meet 2010 FIFA Soccer World Cup demand or to overcome service capacity backlogs.

The Group's project order book at 30 September 2009 remained steady at about R40 billion, continuing a trend over the past 6 months since March 2009 where revenue replacement has been possible from a quality Project Opportunity Pipeline that has increased to R80 billion based on new opportunities of R42 billion in the quarter.

For clarification, the Murray & Roberts Opportunity Pipeline is not the market. It is the sum of those project opportunities that have passed through an initial filter system and against which tender investment has or will be committed.

A number of project-related factors largely outside the control of the Group are expected to impact the performance of the Engineering SADC cluster in the short-term.

- First Quantum's Kolwezi Project in Democratic Republic of Congo which formed an important order for Wade Walker, has been suspended by the government.
- Access to site for mechanical erection at Medupi Power Station is expected to be further delayed, despite acceleration of the foundation and civil works; and
- structural steel fabrication start-up and performance at Genrec has been severely disrupted by significant design changes and information delays.
- Locomotive fabrication and assembly at UCW is ramping up to full production, but public sector budgetary constraints have significantly reduced the refurbishment allocation of metro system units into the company.

The possible impact of these issues on prospects for the half-year to 31 December 2009 and full year to 30 June 2010 is currently being assessed.

In summary, currency translation, performance issues in the Engineering SADC cluster and a South African market struggling with recession, may limit operating performance in the current financial year. This is exacerbated by the fact that the construction economy lags other economic sectors. Additional revenue recognition from Gautrain to 30 June 2010 will depend on appropriate progress with the resolution of outstanding claims and variations.

A further Business Update and market guidance for the half-year to 31 December 2009 will be published on 25 November 2009, following a meeting of the directors to consider first quarter performance and the updated budget for the financial year to 30 June 2010.

## Working Capital

The Group has previously signalled that working capital demand generally increases with a portfolio of major projects and/or public sector projects. The cause is often inadequate project definition resulting in scope variations and cost consequences. The subsequent validation and valuation process requires the application of complex contract mechanisms. This is particularly the case in public sector contracts where such matters generally require formal third party resolution processes such as arbitration or litigation.

The Group has experienced project based working capital demand on Concourse 2 in Dubai and Gautrain in South Africa; through advance inventory build up in manufacturing companies UCW and Hall Longmore; and increasingly on the mechanical subcontract for the Medupi Boiler Project.

The Group has secured additional banking facilities to support working capital demand and a dedicated team under executive committee leadership has been appointed to manage the Group's focus on working capital reduction over the year ahead.

### **Competition Matters**

The Group is committed to open competition in its markets and believes that it has proactively endeavoured to detect evidence of collusive conduct previously existed in its operations and has reported such conduct to the Competition Commission ("Commission") under the Corporate Leniency Policy of the Competition Act 89 of 1998. In this respect the Group has to date received conditional leniency in the following market sectors:

1. Concrete Products
2. Mining Roof Bolts
3. Mesh Reinforcing
4. Reinforcing Steel

The Commission has embarked on a comprehensive investigation into many aspects of the construction and related materials and subcontract industries. This is a complex process and the Group continues with its proactive internal investigations and comprehensive education programs across its operations, and is cooperating fully with the Commission in this respect.

The many levels of complexity in competition matters make it possible that the Group could still be named by the Commission based on its future findings from these investigations. However, the Group believes that it would have a valid defence in such circumstances and remains committed to the establishment of an open competitive environment in its sector.

A Board Sub-Committee has been appointed to ensure that competition concerns are appropriately dealt with in the Group and a dedicated team under executive committee leadership is responsible for the day-to-day detection and compliance education programs.

The information in this Business Update has not been reviewed or reported on by the Group's auditors.

Bedfordview  
21 October 2009

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Deutsche Securities (SA) (Pty) Ltd