Aveng Annual Report June 2004

AVENG

# Annual Report June 2004

Targeting construction in the developing world supported locally by steel and cement

## Finding balance

Contents

# Contents


- IFC Five-year review
- 1 Financial highlights
- 2 Finding balance
- 4 An introduction to Aveng
- 6 Financial objectives
- 8 Organisational chart
- 9 Countries of operation
- 11 Code of business conduct
- 12 Behavioural values
- 14 Market review
- 22 Board of directors
- 27 Chairman's statement
- 29 Chief executive's report
  - 31 Construction
  - 37 Steel & Allied
  - 41 Cement
  - 43 Strategy
  - 43 Prospects
- 45 Financial director's commentary
- 48 Risk
- 50 Board charter – summary
- 53 Corporate governance
- 65 Black economic empowerment
  - 68 Shareholders in Qakazana
- 70 Corporate social investments
- 72 Human capital
  - 73 Employment equity
  - 73 Skills development
  - 74 Remuneration policy
  - 74 Industrial relations
  - 74 Safety, health, environment and quality
  - 74 Safety
  - 75 Health
- 76 Environment
- 80 Value added statement for the group
- 81 Definitions
- 83 Annual financial statement contents
- 84 Report of the independent auditors
- 84 Certificate of the company secretary
- 85 Directors' report
- 87 Accounting policies
- 92 Consolidated balance sheet
- 93 Consolidated income statement
- 94 Cash flow statement
- 95 Statement of changes in equity
- 96 Segmental report
- 97 Notes to the financial statements
- 122 Company balance sheet
- 123 Company income statement
- 124 Company cash flow statement
- 125 Company statement of changes in equity
- 126 Notes to the company financial statements
- 129 Schedule of investments
- 130 The group's major investment
- 132 Shareholders' diary
- 133 Shareholders' analysis
- 134 Notice of annual general meeting
- 135 Proxy form and notes (perforated)
- IBC Corporate information

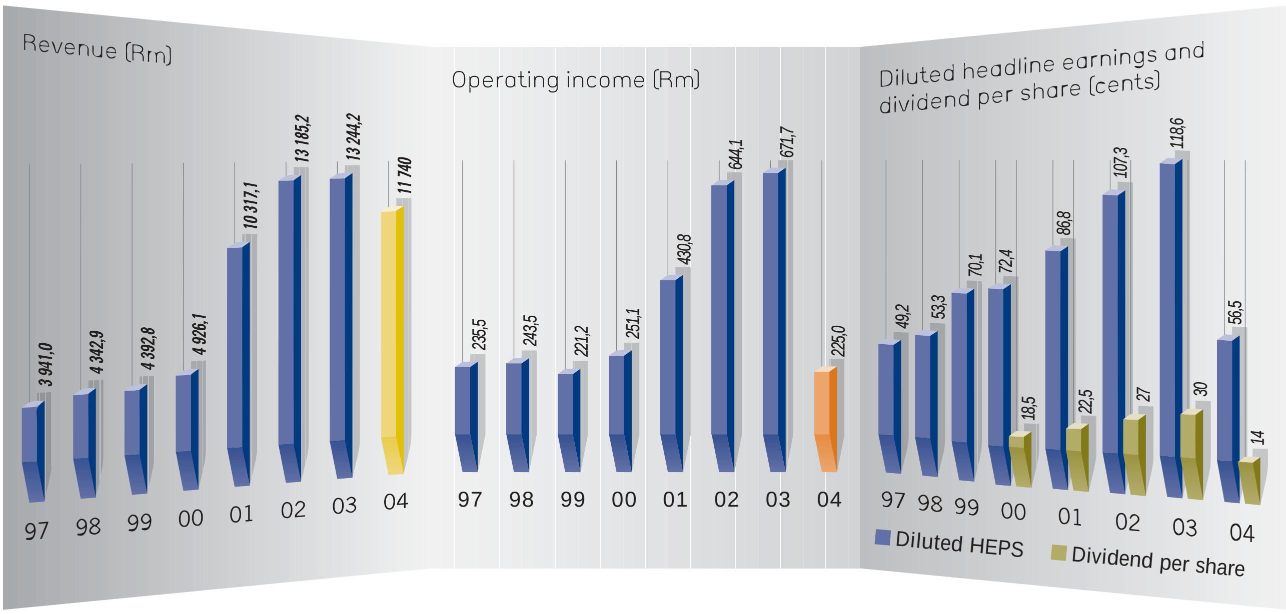
# Five-year review

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| | | Years ended 30 June | | | |
| | **Rm** | Rm | Rm | Rm | Rm |
| *CONSOLIDATED BALANCE SHEET* | | | | | |
| Property, plant and equipment | **1 851,0** | 1 922,9 | 1 770,0 | 1 464,4 | 505,1 |
| Goodwill | **718,5** | 959,2 | 1 075,7 | 1 050,5 | |
| Investments | **554,8** | 526,1 | 507,9 | 618,5 | 440,3 |
| Deferred tax | **65,8** | 29,8 | 22,4 | | |
| Inventories and receivables | **3 513,8** | 4 243,9 | 4 270,1 | 2 647,6 | 1 575,4 |
| Cash and cash equivalents | **746,1** | 673,8 | 678,6 | 368,0 | 755,6 |
| *Total assets* | **7 450,0** | 8 355,7 | 8 324,7 | 6 149,0 | 3 276,4 |
| Deferred tax | **27,8** | 53,2 | 89,3 | 76,5 | 64,1 |
| Payables | **2 848,9** | 3 317,1 | 3 563,5 | 2 323,3 | 1 209,4 |
| Interest-bearing borrowings | **2 049,1** | 1 988,3 | 1 868,2 | 1 562,6 | 125,1 |
| *Total liabilities* | **4 925,8** | 5 358,6 | 5 521,0 | 3 962,4 | 1 398,6 |
| *Net assets* | **2 524,2** | 2 997,1 | 2 803,7 | 2 186,6 | 1 877,8 |
| Total ordinary shareholders' funds | **2 519,1** | 2 823,2 | 2 555,0 | 1 841,7 | 1 616,3 |
| Convertible debentures | | | | 171,2 | 171,2 |
| Total ordinary shareholders' funds | **2 519,1** | 2 823,2 | 2 555,0 | 2 012,9 | 1 787,5 |
| Minority interests | **5,1** | 173,9 | 248,7 | 173,7 | 90,3 |
| *Total shareholders' funds* | **2 524,2** | 2 997,1 | 2 803,7 | 2 186,6 | 1 877,8 |
| *CONSOLIDATED INCOME STATEMENT* | | | | | |
| *Revenue* | **11 739,7** | 13 244,2 | 13 185,2 | 10 317,1 | 4 926,1 |
| Operating income before depreciation | **617,5** | 1 047,1 | 1 008,3 | 722,9 | 332,5 |
| Depreciation | **392,5** | 375,4 | 364,2 | 292,1 | 81,4 |
| *Operating income* | **225,0** | 671,7 | 644,1 | 430,8 | 251,1 |
| Net financing costs | **(208,9)** | (261,5) | (194,0) | (111,3) | 54,3 |
| Income from associates and joint ventures | **184,4** | 155,1 | 113,8 | 99,9 | 74,9 |
| Amortisation of goodwill | **(46,4)** | (59,9) | (53,8) | (65,9) | (10,0) |
| Non-trading items | **19,6** | 192,4 | (4,6) | 7,3 | (11,4) |
| *Income before taxation* | **173,7** | 697,8 | 505,5 | 360,8 | 358,9 |
| Taxation | **18,7** | (100,6) | (119,7) | (78,6) | (78,8) |
| Minorities | **0,8** | (9,9) | (23,3) | (14,3) | (16,4) |
| *Earnings* | **193,2** | 587,3 | 362,5 | 267,9 | 263,7 |
| Headline earnings adjustment | **26,8** | (125,6) | 58,4 | 58,6 | 13,9 |
| *Headline earnings* | **220,0** | 461,7 | 420,9 | 326,5 | 277,6 |
| *CONSOLIDATED CASH FLOW STATEMENT* | | | | | |
| Cash available from operating activities | **435,2** | 301,9 | 296,1 | 378,9 | 406,3 |
| Dividends paid | **(124,4)** | (111,0) | (79,3) | (63,3) | (4,8) |
| Net cash from operating activities | **310,8** | 190,9 | 216,8 | 315,6 | 401,5 |
| Net cash (used in)/from investing activities | **(299,2)** | (313,2) | (211,4) | (2 024,7) | (83,8) |
| Net cash from/(used in) financing activities | **(54,9)** | 152,9 | 48,9 | 529,0 | 23,6 |
| Net increase/(decrease) in cash and cash equivalents | **(43,3)** | 30,6 | 54,3 | (1 180,1) | 341,3 |

| | Years ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2004** | 2003 | 2002 | 2001 | 2000 |
| | **Rm** | Rm | Rm | Rm | Rm |
| *SHARE PERFORMANCE (cents per share)* | | | | | |
| Headline earnings | **56,5** | 118,6 | 111,2 | 99,4 | 79,3 |
| Diluted headline earnings | **56,5** | 118,6 | 107,3 | 86,8 | 72,4 |
| Earnings | **49,6** | 150,9 | 95,7 | 81,6 | 75,4 |
| Diluted earnings | **49,6** | 150,9 | 92,4 | 71,5 | 67,3 |
| Cash flow | **207,6** | 185,7 | 173,6 | 206,7 | 88,5 |
| Net asset value | **635,9** | 712,7 | 645,0 | 517,1 | 453,9 |
| Dividend | **14,0** | 30,0 | 27,0 | 22,5 | 18,5 |
| Closing share price | **740** | 880 | 800 | 765 | 595 |
| *Returns and productivity* | | | | | |
| Borrowings – increase/(decrease) in net borrowings | **(11,5)** | 125 | (5,0) | 1 825 | (129,9) |
| Borrowings – net debt to equity (%) | **51,6** | 43,9 | 42,4 | 54,6 | (33,6) |
| Current ratio (times) | **1,0** | 1,1 | 1,0 | 0,9 | 1,8 |
| Dividend cover | **4,0** | 3,9 | 3,9 | 4,1 | 4,2 |
| Effective tax rate (%) | **n/a** | 24,5 | 26,6 | 24,6 | 27,3 |
| Margin – gross (%) | **14,4** | 17,0 | 15,7 | 16,1 | 16,4 |
| – ebit (%) | **1,9** | 5,1 | 4,9 | 4,2 | 5,1 |
| – ebitda (%) | **5,3** | 7,9 | 7,6 | 7,0 | 6,7 |
| Net interest cover | **2,0** | 3,2 | 3,9 | 3,9 | (6,0) |
| Property, plant and equipment | | | | | |
| – expansion | **244,6** | 403,8 | 315,6 | 324,8 | 87,2 |
| – replacement | **168,5** | 423,8 | 387,5 | 211,3 | 45,4 |
| Return on average capital employed (%) | **9,9** | 18,2 | 19,2 | 20,8 | 20,1 |
| Return on average equity (%) | **8,2** | 17,2 | 18,4 | 17,2 | 16,2 |
| Revenue per employee R'000 | **586,8** | 612,2 | 550,8 | 462,8 | 399,2 |
| Total liabilities as a % of total shareholders' equity (%) | **195,1** | 178,8 | 196,9 | 181,2 | 74,5 |
| Total shareholders' funds to total assets (%) | **33,9** | 35,9 | 33,7 | 35,6 | 57,3 |
| *Number of employees* | **19 538** | 22 875 | 23 939 | 22 291 | 12 340 |
| *Number of shares (million)* | | | | | |
| In issue | **396,1** | 396,1 | 396,1 | 356,1 | 356,1 |
| Weighted average | **389,2** | 389,3 | 378,6 | 328,5 | 349,9 |
| Diluted weighted average | **389,2** | 389,3 | 392,3 | 383,4 | 392,0 |
| *STOCK EXCHANGE PERFORMANCE (cents per share)* | | | | | |
| Market value per share | | | | | |
| – at year-end | **740** | 880 | 800 | 765 | 595 |
| – highest | **995** | 1068 | 880 | 869 | 890 |
| – lowest | **703** | 740 | 615 | 570 | 420 |
| – volume weighted average price | **821** | 886 | 779 | 685 | 649 |
| Earnings yield (%) | **12,4** | 13,2 | 11,4 | 11,2 | 13,7 |
| Dividend yield (%) | **1,9** | 3,4 | 3,4 | 2,9 | 3,1 |
| Market capitalisation at closing prices (Rm) | **2 931,5** | 3 486,1 | 3 169,2 | 2 724,4 | 2 118,9 |
| Price earnings ratio at year-end | **8,1** | 7,6 | 8,7 | 8,9 | 7,3 |
| Value of shares traded (Rm) | **2 002,9** | 1 394,3 | 1 465,9 | 879,5 | 1 464,3 |
| Number of shares traded (million) | **244,0** | 157,4 | 189,9 | 135,5 | 207,5 |
| Average price per share traded (cents) | **821** | 886 | 772 | 649 | 706 |
| Percentage of market capitalisation traded (%) | **68,3** | 40,0 | 46,3 | 32,3 | 69,1 |
| Liquidity (%) | **61,6** | 39,7 | 47,9 | 34,2 | 58,3 |
| Weekly rand volume (Rm) | **38** | 27 | 28 | 18 | 28 |

# Financial highlights

| 2003 US$m | **2004 US$m** | | **2004 Rm** | 2003 Rm | % change |
|---|---|---|---|---|---|
| | | *FINANCIAL RESULTS* | | | |
| 1 472 | **1 712** | Revenue | **11 740** | 13 244 | (11,4) |
| 75 | **33** | Operating income | **225** | 672 | (66,5) |
| 51 | **32** | Headline earnings | **220** | 462 | (52,4) |
| | | *ORDINARY SHARE PERFORMANCE (cents per share)* | | | |
| 13,2 | **8,2** | Diluted headline earnings | **56,5** | 118,6 | (52,3) |
| 16,8 | **7,2** | Diluted earnings | **49,6** | 150,9 | (67,1) |
| 3,2 | **2,0** | Dividend | **14,0** | 30,0 | (53,3) |
| | | *CASH FLOW* | | | |
| 76 | **110** | Net cash generated by operations | **757** | 682 | 11,0 |
| | | *EXCHANGE RATE* | | | |
| | | Rand to US$ – Closing rate | **6,28** | 7,47 | (16,0) |
| | | – Average rate | **6,86** | 9,00 | (23,8) |



Swiss Re Tower: London
Architect: Foster and Partners

With its aerodynamic shape the Swiss Re building is the first environmental skyscraper in the City of London, breaking through the conventions of traditional office buildings.

Being an environmentally progressive building, it incorporates a range of sustainable measures that translates into 50% energy saving compared to traditional offices. The 40-storey tower has mechanisms that respond to weather changes, minimises wind disturbance in the plaza at ground level, maximises natural light in the offices and incorporates a natural ventilation system that takes the place of traditional air-conditioning.

"Finding balance" as a philosophy broadens the spectrum of Aveng's thinking. Solid dependable quality systems stand in juxtaposition to an innovative rule-defying urge to do things differently – to find better solutions for our customers.

The approach is illustrated in the pages that follow. Sound quality based reporting balanced against illustrations of some of the worlds' most innovative structures.

# Finding balance

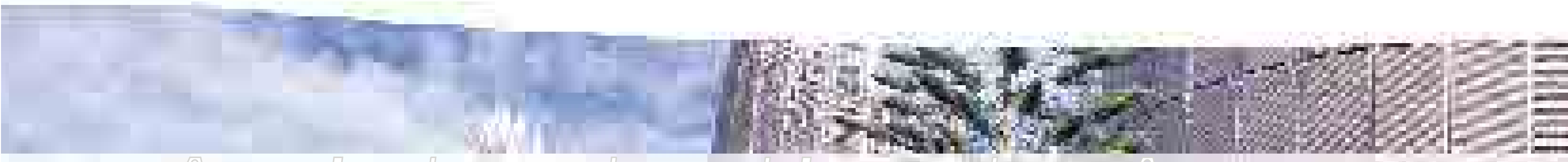
Finding balance is the theme of this annual report to shareholders. It is also the core principle around which Aveng builds its strategy.

Volatile exchange rates for example, call for a balance in the group's currency exposure. This year revenues were finely balanced with one-third directly exposed to hard currencies, another third indirectly exposed through our mining and export orientated customers and a final third generated in rand denominated infrastructure work.

Cyclical but potentially lucrative international construction enterprises are balanced against the more stable home-based steel and cement businesses. Capital intensive annuity income generating opportunities are balanced against cash positive project work, private funded income streams against government projects, low risk low margin work against projects with higher risk and margin profiles . . .

Finding balance does, however, go beyond the mechanistic business imperatives. As a philosophy it extends to the way we treat our people, support our local communities and respond to the challenge of broadly-based empowerment.

These issues are examined in detail in the pages that follow. We trust that you, the reader and stakeholder in Aveng, will understand our group all the better as a result.



# An introduction to Aveng

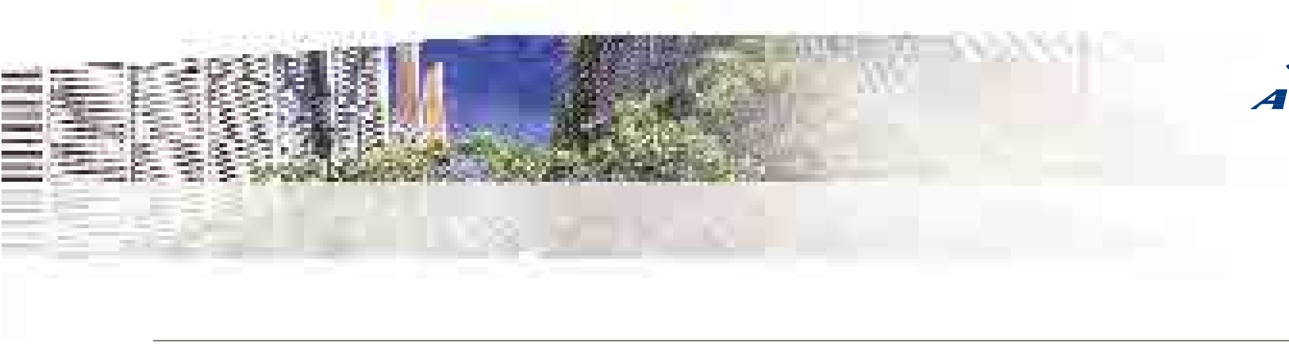
*Pronounced Av-eng (previously Anglovaal Engineering), the group was separately listed on the JSE Securities Exchange South Africa in July 1999. Aveng does not have a controlling shareholder, being broadly held by the public and a number of institutional shareholders of which 24%* is held indirectly by previously disadvantaged individuals. The group's free float exceeds 95% and its liquidity is good with 68% of the company's shares having traded in 2004.*

Aveng has a proud South African heritage going back 115 years to a small construction company owned by James Thompson on the corner of Main and Rissik Streets, Johannesburg. Today it provides jobs to 24 355 people (being 19 538 employees and 4 817 labour only sub-contractors) and has expanded internationally in pursuance of its vision to be a "globally competitive construction-related group focused principally on the developing world". Last year the group worked in 32 countries and, based on work done outside of the home country, was rated by the authoritative 2004 *Engineering News Review* report as one of the world's top 50 international contractors.

Because of the risk (and opportunity) associated with international construction, Aveng seeks to balance these interests with the more stable earnings profiles found in its South African-based steel beneficiation and cement businesses.

The group's Construction cluster is made up of Grinaker-LTA Limited, focused on Africa and the Middle East (central time zone) and the McConnell-Dowell Corporation Limited, an Australian-based construction company, well positioned in Australasia and South East Asia (eastern time zone). This broad geographical spread enables the construction division to offer construction services across the full range of engineering disciplines to customers with interests in Africa, the Middle East, Australia and South East Asia. Successful projects include pipelines, opencast mines, casinos, shopping malls, roads, dams, harbours and a wide range of other commercial and industrial installations. While the group continues to execute projects like these, strategic construction capability is increasingly being focused around serving the mining, energy and heavy infrastructure markets.

**per EmpowerDex (June 2004/Financial Mail Top 200 Companies)*



*"Our vision is to be a globally competitive construction-related group focused principally on the developing world"*

The Steel & Allied strategic cluster is made up of Trident Steel and the other non-contracting businesses found in the Grinaker-LTA Manufacturing business unit. It has a presence in all the major cities across South Africa, with services that include supplying shaped blanks (eg steel cut to the shape of a car door) to the motor industry, a variety of steel and concrete products to the mining industry, specialised steel to the manufacturing sector and a broad range of structural and concrete reinforcing steel products to the construction industry.

Aveng's Cement interests comprise a 46% stake in Holcim (South Africa) (Pty) Limited (formerly Alpha (Pty) Limited) with the remaining 54% held by Holcim Limited – the world's second largest cement manufacturer operating in over 70 countries. Holcim (South Africa) owns and operates three cement factories and the associated production facilities, a number of large quarries, aggregate operations and a broad network of ready-mixed concrete plants.

Aveng is overseen by a board headed by an independent non-executive chairman and dominated by independent non-executive directors. The company complies with the King II recommendations on corporate governance and senior executives commit annually to a rigorous ten point code of business conduct.

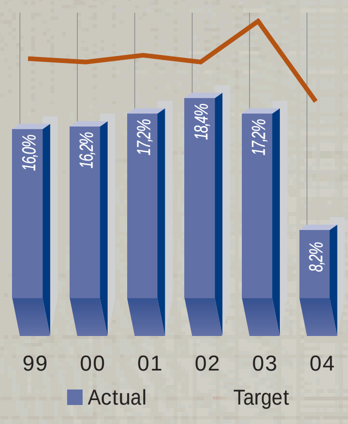
Aveng was one of 51 founding constituents of the Social Responsibility Investment (SRI) index launched by the JSE Securities Exchange South Africa earlier this year. Aveng has also led the way in the construction and steel industries by recently announcing a black economic empowerment transaction with a broadly-based consortium led by TisoGroup.

Most importantly, Aveng is people working together for a common cause – it has a history, a corporate character, a soul. The hunter in Aveng's emblem personifies the entrepreneurship and passion of our founders. Being a marksman, the hunter portrays an ongoing quest for excellence and a "straight shooting" integrity. This is our soul – the values on which we seek to build the group's future.

# Financial objectives

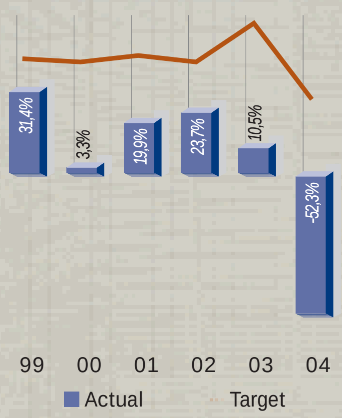
| | | Average | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|---|---|
| 1. RETURN ON AVERAGE EQUITY | | | | | | | | |
| | Achieved | 15,5% | **8,2%** | 17,2% | 18,4% | 17,2% | 16,2% | 16,0% |
| | Target | 17,2% | **14,8%** | 19,5% | 17,1% | 17,5% | 17,1% | 17,3% |

*Target*
To achieve a long-term return on average equity of CPIX + 10%



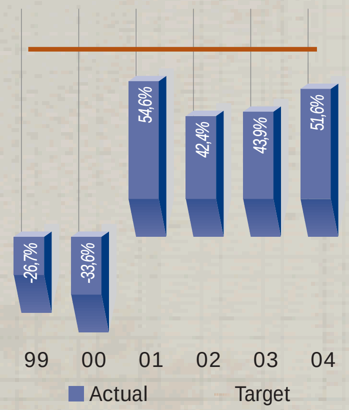

| | | Average | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|---|---|
| 2. GROWTH IN DILUTED HEADLINE EARNINGS PER SHARE | | | | | | | | |
| | Achieved | 6,1% | **(52,3%)** | 10,5% | 23,7% | 19,9% | 3,3% | 31,4% |
| | Target | 17,2% | **14,8%** | 19,5% | 17,1% | 17,5% | 17,1% | 17,3% |

*Target*
To achieve a long-term average annual growth in diluted headline earnings per share of CPIX +10%



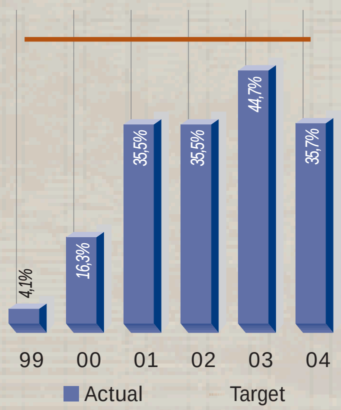
| | Average | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|---|
| *3. NET DEBT-TO-EQUITY RATIO* | | | | | | | |
| Achieved | 22,0% | **51,6%** | 43,9% | 42,4% | 54,6% | (33,6%) | (26,7%) |
| Target | 35,0% | **35,0%** | 35,0% | 35,0% | 35,0% | 35,0% | 35,0% |

## Target
To achieve a net debt-to-equity ratio of 35% in the longer term




| | Average | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|---|
| *4. HARD CURRENCY REVENUES* | | | | | | | |
| Achieved | 28,6% | **35,7%** | 44,7% | 35,5% | 35,5% | 16,3% | 4,1% |
| Target | 50,0% | **50,0%** | 50,0% | 50,0% | 50,0% | 50,0% | 50,0% |

## Target
To generate 50% of group revenue in hard currencies in the longer term



# Organisational chart

**AVENG**

**CEO: Carl Grim**
**FD: Dennis Gammie**

| McConnell Dowell (100%) | Grinaker-LTA (100%) | Trident Steel (100%) | Holcim (South Africa) (46%) |
|---|---|---|---|
| *Chairman: Frank Crowley* | *MD: Howard Jones* | *MD: Ben Fourie* | *MD: Karl Meissner-Roloff* |
| *MD: David Robinson* | *FD: Brian Barrow* | *GM: Richard Martin* | *FD: Dave King* |
| *Civil Engineering* | *Building* | *Merchanting* | *Dudfield Factory* |
| *Mechanical Engineering* | *Engineering* | *Automotive* | *Ulco Factory* |
| *Electrical Engineering* | *Mechanical & Electrical* | *Cutting* | *Cement Blending Depots* |
| *Pipelines* | *Roads & Earthworks* | *Coastal branches* | *Stone & Sand Quarries* |
| | *Opencast Mining* | *Trident Sterling Tube* | *Ready Mixed Concrete* |
| | *Property Development* | *Trident Speciality Steels* | *33% Slagment* |
| | | *30% Tshipi Steel* | *62,5% Tanga Cement (Tanzania)* |

*Grinaker LTA Manufacturing* (Grinaker-LTA and Trident Steel)

**Construction** (McConnell Dowell, Grinaker-LTA)

**Steel & Allied** (Grinaker-LTA, Trident Steel)

**Cement** (Holcim)

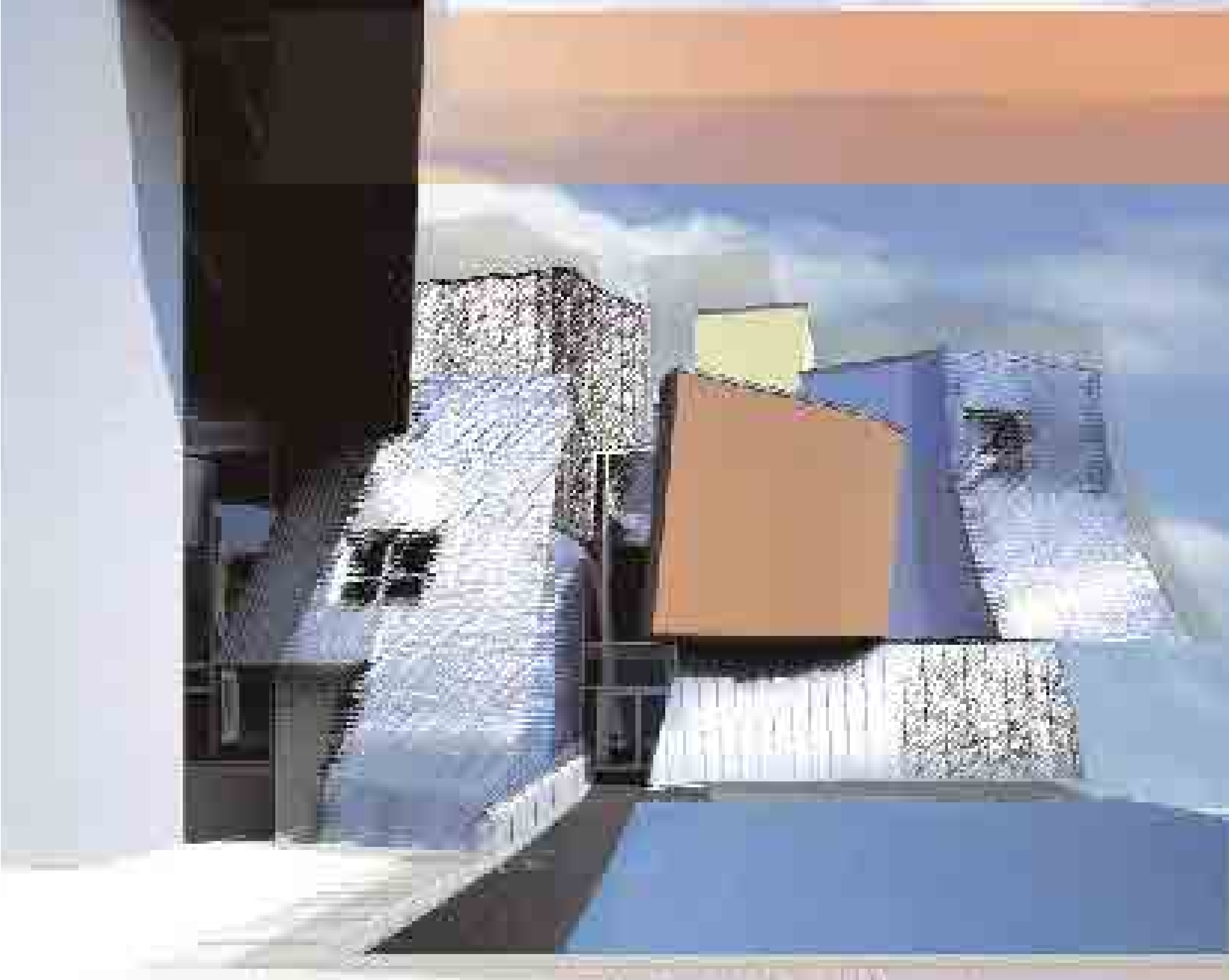
*Subsequent to 30 June 2004, the group structure will change as a result of the sale of 25% of both Grinaker-LTA Limited and Trident Steel Holdings (Pty) Limited to a TisoGroup led BEE consortium. For a detailed structure see page 69.*

# Countries of operation

Angola Australia Azerbaijan Bangladesh Botswana Brunei Ethiopia Gabon Georgia Ghana Guinea Hong Kong (P.R.C) India Indonesia Kenya Kuwait Lesotho Libya Malawi Mali Mozambique Myanmar (Borneo) Namibia New Zealand Nigeria Pacific Islands Papau New Guinea Philippines Qatar Rwanda Saudi Arabia Senegal Singapore Sri Lanka Swaziland Taiwan Thailand Tunisia Turkey Vietnam United Arab Emirates

Vitra Headquarters: Basel, Switzerland
Architect: Frank Gehry

In addition to the office block, there are more "permanent" communal support areas such as the main entrance/reception, cafeteria, switchboard, mail, meeting and conference rooms. Since these spaces were thought of as less changeable and are used by all departments of the company, including off-site personnel, it was decided that they should be located centrally and allow for future expansion of offices around them. The nature of these spaces also allowed them to take on richer, sculpted shapes. The size and proportion of this element is similar to the scale of some of the existing homes nearby; it thus became dubbed "the villa". Inside the villa, conference and meeting space interiors are enhanced by strong colours and custom light fixtures of sculptural shapes including a fish form. The wing canopy houses a "living room" atrium and formally mediates between the simple office block and the central, energetic villa.



Code of business conduct

# Code of business conduct

Aveng is proud of its reputation for **integrity** and will ensure that this is continually reinforced through the way it conducts business.

The group's directors and senior employees undertake to uphold both the spirit and letter of the following ten point code of business conduct:

- The law **will** not be violated when conducting business for or on behalf of the group. Unethical payments, business dealings, or participation in illegal acts, such as bribery or money laundering will not be tolerated.

- Any possible **conflict of interest** in handling group affairs will be avoided and employees will perform their duties conscientiously, honestly and in accordance with the best interests of the group and its shareholders.

- Employees will not derive **personal advantage** from their position in the group, nor will they acquire any business interest which could divert their energy from group responsibilities. They will not participate in an activity that is potentially in conflict with group interests or which could be perceived to impair their independence. Employees will not accept gifts, hospitality or other favours from suppliers or potential suppliers of goods or services which, in the view of their direct employer, supervisor or colleagues would be unwise, potentially send the wrong message to subordinates or place the recipient or the group under obligation.

- Group funds, property and assets will be used only for legitimate business purposes. Strict internal **controls** and governance procedures of the highest standard will be enforced to discourage fraud and safeguard the group.

- Accurate and reliable **records** will be kept which fairly reflect all business transactions in terms of statements of South African Generally Accepted Accounting Practices and International Financial Reporting Standards, in order for the group to properly manage its affairs and meet its legal, financial and reporting obligations.

- Personal and business **information** gained in the course of business dealings will be safeguarded and its privacy respected.

- The group will uphold its **employment equity** policy which requires that equal opportunity be offered to all employees. The individuality of each person, their right to freedom of association and to absolute privacy in this regard will be respected. Furthermore, management will seek to identify, develop and appropriately reward those employees who demonstrate exceptional commitment to the group's core values of integrity, quality and entrepreneurship.

- Aveng will strive to be a good **corporate citizen** and will work with its employees, their families, local communities and society at large to improve the overall quality of life and to achieve sustainable economic development at all levels.

- The group will promote policies and operating procedures that conserve resources and minimise the **environmental** impact of its business activities.

- Finally, Aveng, its subsidiaries and officers will seek to build an atmosphere of openness and trust through regular, timeous and courteous **communication** with all stakeholders.

# Behavioural values

A company's behavioural values link talk and action. Talk is transient. What gets done matters.

Some years ago Aveng embarked on an exercise to identify those behavioural values or practices that had become entrenched in the group's subsidiaries. After extensive discussion, these values were distilled into three words that in the broadest terms define Aveng's understanding of desirable corporate behaviour – or more colloquially "the way we should be doing things around here."

The first of these, "integrity" is the value of primary importance to our future, as it impacts on the reputation of the group. Without it we would not have a business, as the best people, be they employees, customers, suppliers or shareholders, will not want to be associated with us. Action by an employee that could potentially undermine the group's reputation is considered in a very serious light and could result in dismissal. The two remaining values of "quality" and "entrepreneurship" are aspirational in nature. They drive business decisions, and exceptional commitment by employees. The behaviour that these values seek to promote is rewarded.

### *Integrity: "walking the talk"*

As integrity has become a mere platitude in business parlance, we have sought to avoid this in Aveng by carefully defining our own brand of integrity in a very specific ten point "Code of Business Conduct", published in the early pages of this report.

These ten directives are the group's "rules of engagement", defining the nature of our relationship with each other and with the outside world. The code defines the boundary conditions within which we hope to deliver value for our customers, provide a challenging work environment for our people and make money for shareholders.

At the beginning of each year this code is formally accepted by the directors of Aveng and its principal subsidiaries. Integral to this acceptance is a commitment to communicate the contents of the code and its broader implications widely within the group's operating companies.

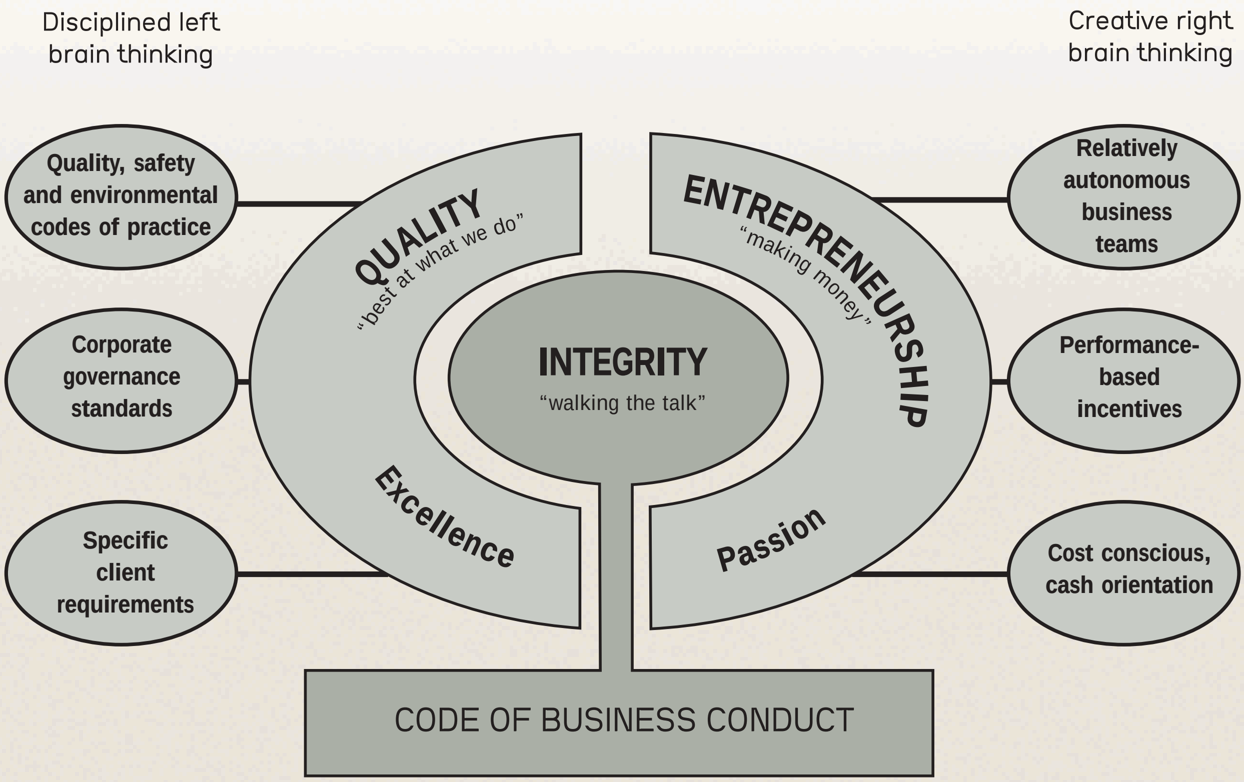
Management practitioners will understand that commitment at the top is relatively easy to achieve, while actual day-to-day practice, deep down in the organisation, is very much more difficult to control. As a relatively decentralised group, with approximately 20 000 employees spread across hundreds of sites in dozens of countries, value driven leadership at all levels becomes that much more important. A clearly defined corporate conscience enables employees to intuitively know what actions are acceptable and what are not. Furthermore, employees are thereby protected from possible unscrupulous behaviour of superiors.

Simply stated, integrity means being honest, caring for the company, respecting each other and delivering on undertakings.

### *Quality: "being the best at what we do"*

Quality as a behavioural value is about acting professionally, winning work and then doing the finest job we can for our customers. It is about "being the best at what we do" and since no one company can be the best at everything, it means that each business unit needs to identify and develop commercially viable "best in class" capabilities that have the potential of adding real value for customers. Underpinning "quality" as a value is the need for disciplined, systematic, and compliant behaviour. This includes meeting the sometimes onerous requirements of a range of quality, safety and environmental codes of practice, a host of corporate governance standards and specific job related customer requirements.

“The Code of Business Conduct defines our rules of engagement. Its non-negotiable. Its the way we choose to do business”

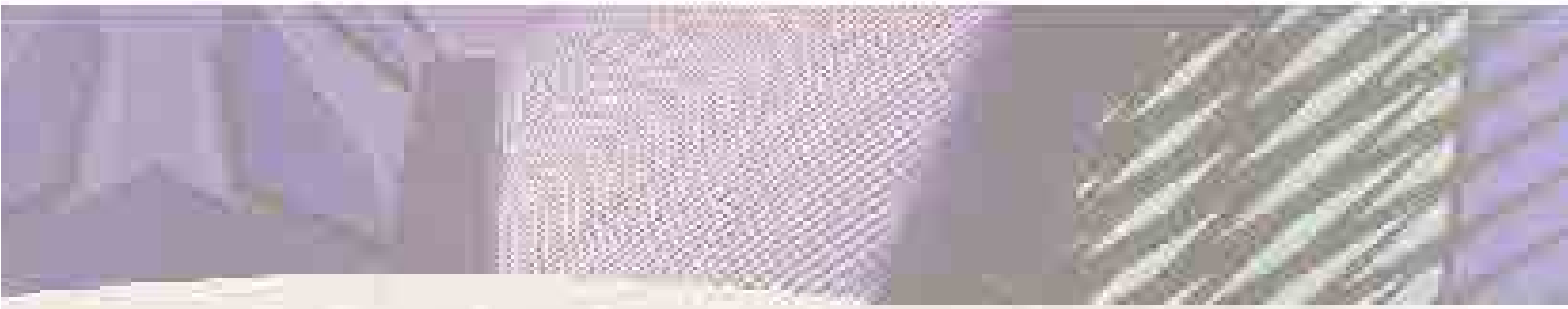



In addition, quality is about continuous improvement. Without a commitment from everyone to constantly work on improving our game, we will not be able to stay at the top.

### *Entrepreneurship: “making money”*

In our language entrepreneurship means “treating this business as if it was my own, being diligent and cost conscious in the way I manage it and being creative in finding ways to grow it further and make more money.” More briefly, it’s about “getting out there, making profit and collecting the cash” – something drilled into the business units by their entrepreneurial founders.

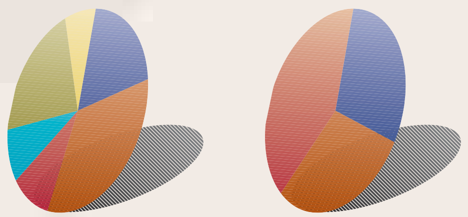
Large businesses have the important advantages that come with economies of scale. Highly debilitating however, is the bureaucracy that most often accompanies size. A sense of ownership and destiny is lost and a “cog in a big machine” mentality develops. Aveng continually strives to avoid this trap by structuring relatively small and autonomous business units, and even smaller teams within these units, that have clearly defined authority and accountability. Innovative thinking is encouraged and a sense of ownership develops. Group companies continually seek to organise themselves to be both big and small at the same time. This is relatively easily achieved in our construction businesses because of their geographically decentralised nature. Performance-based incentives in the form of annual bonuses and longer term phantom share schemes are linked directly to business unit profitability, the most important reason for any employee to “act as an owner”.



# Market review

## International contracting

Total | Aveng

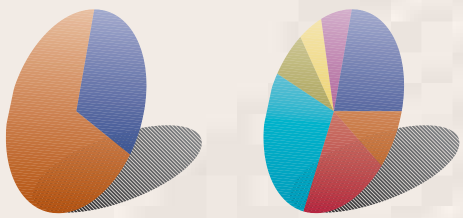


| | | | |
|---|---|---|---|
| North America | 20% | Australia and SE Asia | 30% |
| Europe | 33% | Africa and Middle East | 30% |
| Japan | 10% | South Africa and CMA | 40% |
| Asia/Australia | 9% | | |
| Africa/Middle East | 21% | | |
| South America | 7% | | |

*Source: ENR, Aveng*

## Profiles of international contractors

Revenues | Markets



| | | | |
|---|---|---|---|
| International | 32% | Building | 25% |
| Domestic | 68% | Industrial | 9% |
| | | Petroleum | 19% |
| | | Transportation | 28% |
| | | Power | 7% |
| | | Water/Waste | 5% |
| | | Other | 7% |

*Source: ENR*

### *International (developing world) construction*

The status of a country's built environment is the reflection of that nation's developmental progress, as well as its physical foundation for economic and social advancement in the future. The construction industry creates and maintains this foundation, following a process that must deliver value to customers and society, and in so doing contributes about 10% to the world economy. Approximately 63% of this construction investment is made in the USA, Western Europe and Japan.

Based on the recently published Engineering News Record (ENR) survey of the largest 200 global contractors, revenue generated outside of domestic markets by international contractors increased by 20% over the past year, reflecting healthy demand after the preceding years of turmoil. While the ENR rankings are not comprehensive, they are the best available and do include by far the greater majority of the world's largest construction companies. In 2004 Grinaker-LTA was ranked in position 45 (compared to position 46 two years ago) on the ENR list of international contractors. The consistent ranking in the top 50 over the last three years profiles Grinaker-LTA as a significant construction player in the developing world where between 30% and 40% of international contracting revenue is generated. McConnell Dowell Corporation was ranked 79 compared to position 85 two years ago.

Top International Contractors (ENR, August 2004)

| Rank[1] 2004 | 2003 | Company |
|---|---|---|
| 1 | 1 | Skanska AB, Sweden |
| 2 | 2 | Hochtief AG, Germany[2] |
| 3 | 3 | Vinci, France |
| 4 | 11 | Bechtel, USA[5] |
| 5 | 4 | Bouygues, France[3] |
| 6 | 6 | KBR, USA[5] |
| 7 | 5 | Technip, France[5] |
| 9 | 36 | Royal BAM Groep, The Netherlands[5] |
| 13 | 12 | Fluor Corp, USA[5] |
| 14 | 22 | Foster Wheeler Ltd, USA[5] |
| 19 | 17 | Consolidated Contractors Int'l Co, Greece[5] |
| 22 | 19 | Techint Group, Italy[5] |
| 26 | 15 | Balfour Beatty plc, UK[5] |
| 34 | 28 | Obayashi Corp, Japan[5] |
| 43 | 21 | ABB Lummus Global, USA[5] |
| 44 | 34 | Leightons Holdings Ltd, Australia[5] |
| **45** | **43** | **Grinaker-LTA, South Africa[4]** |
| 51 | 53 | BESIX, Belgium[5] |
| 52 | ** | Soletanche Bachy, France[5] |
| 67 | 47 | Penta-Ocean Construction Co Ltd, Japan[5] |
| 70 | 73 | Ed Zublin AG, Germany[5] |
| 76 | 85 | E Pihl & Son As, Denmark[5] |
| **78** | **77** | **McConnell Dowell, Australia[4]** |
| 91 | 83 | Black & Veatch, USA[5] |
| 137 | 133 | Great Lakes Dredge & Dock Corp, USA[5] |
| 150 | 175 | Tumer Industrial Holding Co, USA[5] |
| 191 | 154 | Parsons Brinckerhoff Inc, USA[5] |

***Note***

*1 Based on international revenues, ie revenues generated outside of home country*
*2 Local subsidiary: Concor*
*3 Local subsidiary: Basil Read*
*4 Aveng subsidiaries*
*5 Construction companies that Grinaker-LTA is working with or has worked with recently*
***Not included previously*

The world map on page 16 shows Aveng construction projects around the world:

The **Australasian** market is in a buoyant phase, particularly in the minerals and energy sectors, which are fuelled by unprecedented demands from China. Other areas, including road construction, electricity, telecommunications and water storage and supply are also doing well as a result of government's civil construction agenda.

With oil prices at record levels, international oil and gas companies are planning many new developments and the **Middle East** market will benefit considerably from this activity. Both Grinaker-LTA and McConnell Dowell are well positioned in this market with their specific competencies in mechanical, electrical and pipeline work.

**Africa** has been unsuccessful in attracting foreign direct investment (FDI) over the past few decades (1% to 2% of world FDI). Where countries have been able to attract the interest of multinational companies, this can principally be ascribed to their abundant natural resources or the size of their domestic market. Some African countries have been able to attract the interest of international investors by improving their business environment, suggesting that Africa can become competitive internationally and attract FDI on a sustainable basis. Nepad has contributed to this change, an initiative that Aveng applauds and will continue to support.

The African construction market continues to rely on international aid. While most aid is well intended, the way in which aid projects are executed is of concern. Because of the imbalance between the number of urgent projects and the limited amount of aid money, an attempt is made to achieve too much with the money available and the quality of the resulting infrastructure suffers. The cultivation by most contractors of private sector customers to reduce reliance on governments and aid agencies is an ongoing trend. South African construction companies are well placed to follow their local mining and industrial counterparts into Africa, as they take advantage of African investment opportunities.

American Samoa Angola Australia Azerbaijan Botswana Fiji Georgia Ghana Guinea Indonesia Laos Libya Mali Mauritius Mozambique Namibia New Zealand Nigeria Philippines Rwanda Saudi Arabia Singapore South Africa Swaziland Thailand Taiwan Tanzania United Arab Emirates Vietnam Zambia Zimbabwe


*Source: Aveng*

**Figure 1**

African investment opportunities

| Sector | Countries |
|---|---|
| Mining | Algeria, Congo (DRC), Egypt, Ethiopia, Gambia, Guinea, Mali, Tanzania, Zimbabwe |
| Oil and gas | Algeria, Angola, Gambia, Mozambique, Nigeria |
| Non-metallic minerals | Ethiopia, Gambia, Niger, Zambia |
| Civil infrastructure/ building | Angola, Egypt, South Africa |

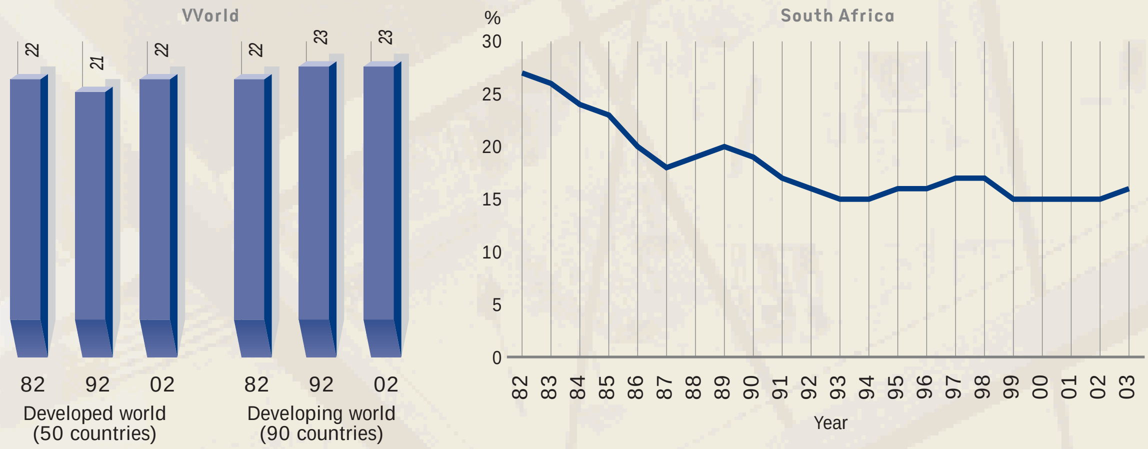
*Source: Infomine-africa.com*

## *South African construction*

Disappointingly, fixed investment spending as a proportion of GDP (16% of GDP in 2003) still shows no immediate signs of increasing to the average levels achieved in other parts of the developing world (23% of GDP). Whilst residential and non-residential building activity has been good in recent years as a result of decreasing interest rates and rising consumer confidence, those industries dependent on the exchange rate, such as mining and manufacturing, have not experienced a similar buoyancy. However, the winning of the bid to host the 2010 Soccer World Cup and a renewed determination by government to invest in infrastructure should prove to be positive for the industry. It has given new impetus to infrastructure initiatives on a wide front, and in particular the Gautrain project. Not since the Lesotho Highlands water scheme has South Africa had a project of such magnitude and profile.

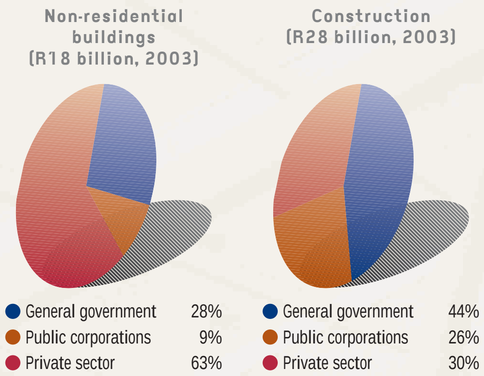
Prospects in the building sector continue to be bright with the office market remaining solid. Opportunities in this sector are also available in other regions, for example the Middle East and Angola. Grinaker-LTA has been a major constructor of sport stadia – notably Ellis Park and the FNB soccer stadium – to name

## Domestic fixed investment as % of GDP



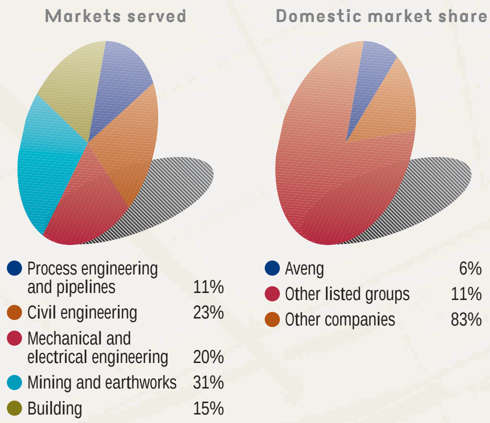

Sources: World Bank, SARB

## Fixed investment by asset type




Source: LHA

## Aveng construction cluster (2003/04)



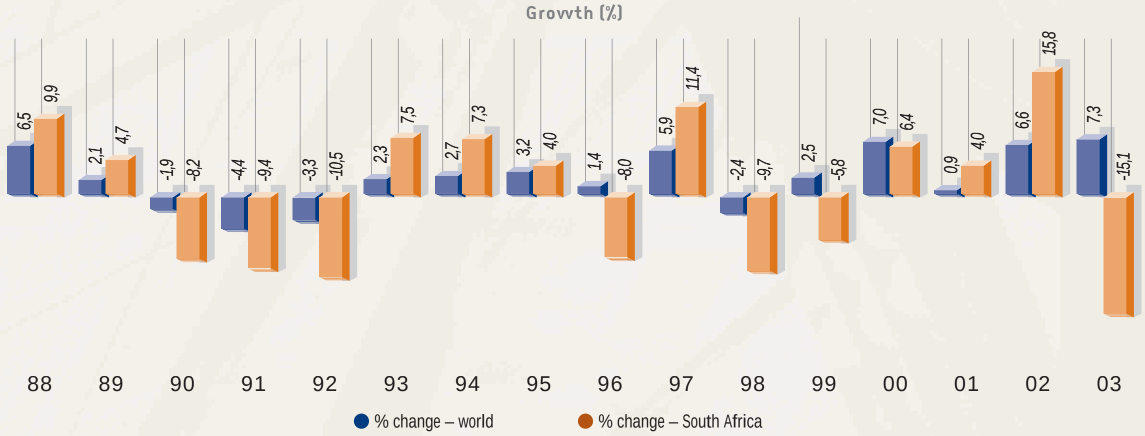

Source: LHA

two. It also has the capacity and capability to build the primary and supporting infrastructure required for the 2010 Soccer World Cup.

Together, government and the public corporations have announced capital spending on infrastructure of over R100 billion over the next three to four years. Given that this becomes reality, it could bring state spending on infrastructure in line with levels required to sustain higher economic growth. Aveng's recently announced BEE transaction will position it to assist with the governments Expanded Public Works Programme (EPWP). The industry is concerned at continued under-spending against budgets by government and its lack of resources to quickly bring projects to a point of closure. Government and public corporations are responsible for 37% of non-residential building and 70% of construction activity. It therefore has a significant effect on the fortunes of the industry.

On the private sector front, the platinum mining and energy sectors offer the best construction opportunities, particularly for larger construction groups. As a consequence of the strong rand and uncertainties around the mining charter, many projects were deferred for some time. However, the platinum producers are likely to embark on robust capital expenditure programmes over the next three to four years, while Sasol and the electricity sector have announced expansion programmes. South Africa is moving towards diversifying its

International steel cycle




Sources: SAISI

energy sources and natural gas offers exciting possibilities in the production of environmentally friendly diesel and chemicals from gas. On the electricity front, more regular outages in larger metropoles will over time increase the need for additional generating capacity.

There is general consensus that the construction industry is being forced by powerful customers to take on increased risk which has resulted in substantial losses being incurred by the industry. Risk has always been present in construction and has had to be managed, both punishing and rewarding the risk taker. Over time, the industry has become proficient in managing complex projects that are long term in nature and subject to great uncertainty. However, more and more private and public sector customers have been attempting to shift risk onto construction companies that neither they nor the construction company have properly understood nor been able to quantify adequately.

In recent work undertaken on behalf of the World Economic Forum it was shown that global construction profitability has been continuously declining over the past decade. Analysed independently from the impact of general economic downturns, EBITDA of the world's largest publicly traded engineering and construction companies has fallen from around 3% in 1990 to about 1,6% in 2002. These trends have been detected by South African construction groups operating internationally and will increasingly be felt by others, given that we lag such global trends by two to three years.

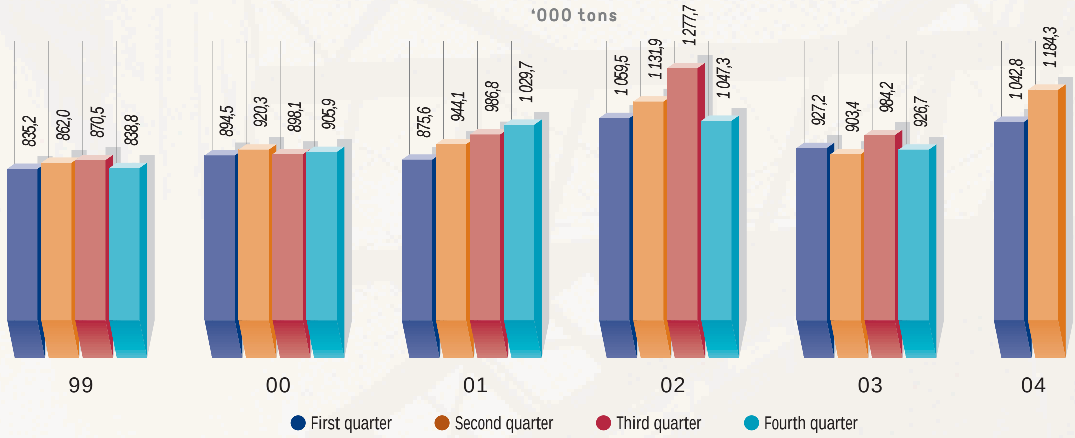
The response worldwide has been partnering and alliancing and a concerted attempt by the industry to better understand and manage risk. The passing of more risk onto the contractor has reflected in a steep escalation in project tender prices as contractors have attempted to reflect the increased cost of risk. A more equitable middle way is now being pursued with most customers and a genuine attempt being made to allocate the management of each type of risk to the party (customer, engineer or contractor) that understands it best.

### Steel

The local steel market has experienced high volatility in demand over the last three years, with a 15% growth in 2002, a 15% contraction in 2003 and what appears to be more substantial growth in 2004. Whilst the magnitude of these annual sales volume changes has been severe, they are not uncommon in international markets. Both the world and the South African market are subject to a steel cycle, with two to three year growth periods followed by a similar period of negative growth.

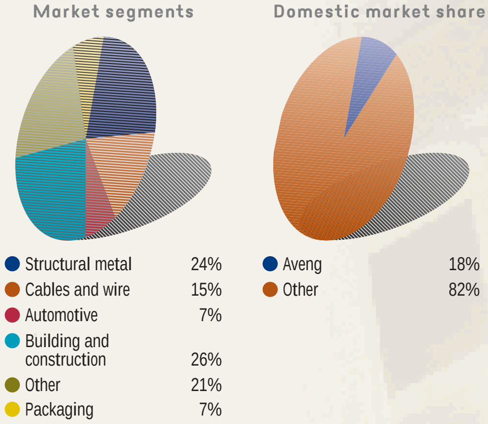
## Local sales of primary carbon steel products

'000 tons



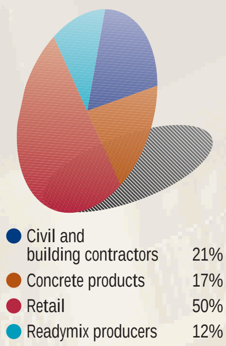

Source: SAISI

## Steel market (2003/04)



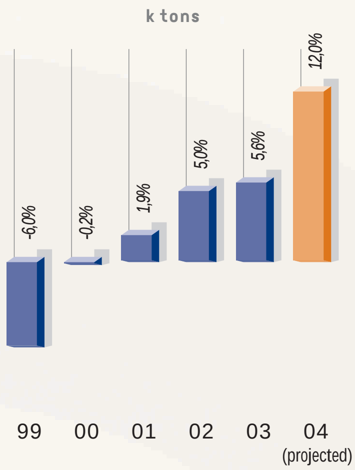

Source: SAISI, LHA

## Cement end-users



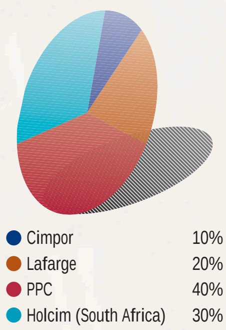

Source: C&CI

## Sales of cementitious binders




Source: C&CI

## Approximate cement market shares




Source: LHA

"Our business begins with a clear understanding of our markets and how they are changing. Only then can we do justice to the long-term needs of our customers"

The consequence of this trend is that the local consumption of primary carbon steel products today is roughly at levels similar to a decade ago. Considering that nearly 50% of steel sales are structural steel and profiles used in mining, building and construction, the impact on steel demand of relatively low levels of investment in infrastructure becomes clear.

Trident Steel, with a greater focus on supplying the manufacturing and motor sectors with value-added carbon steel products, has as a result of this sectoral focus increased its market share of the local steel market.

### Cement

Over the past two years, the growth in cement consumption in the South African market has exceeded expectations.

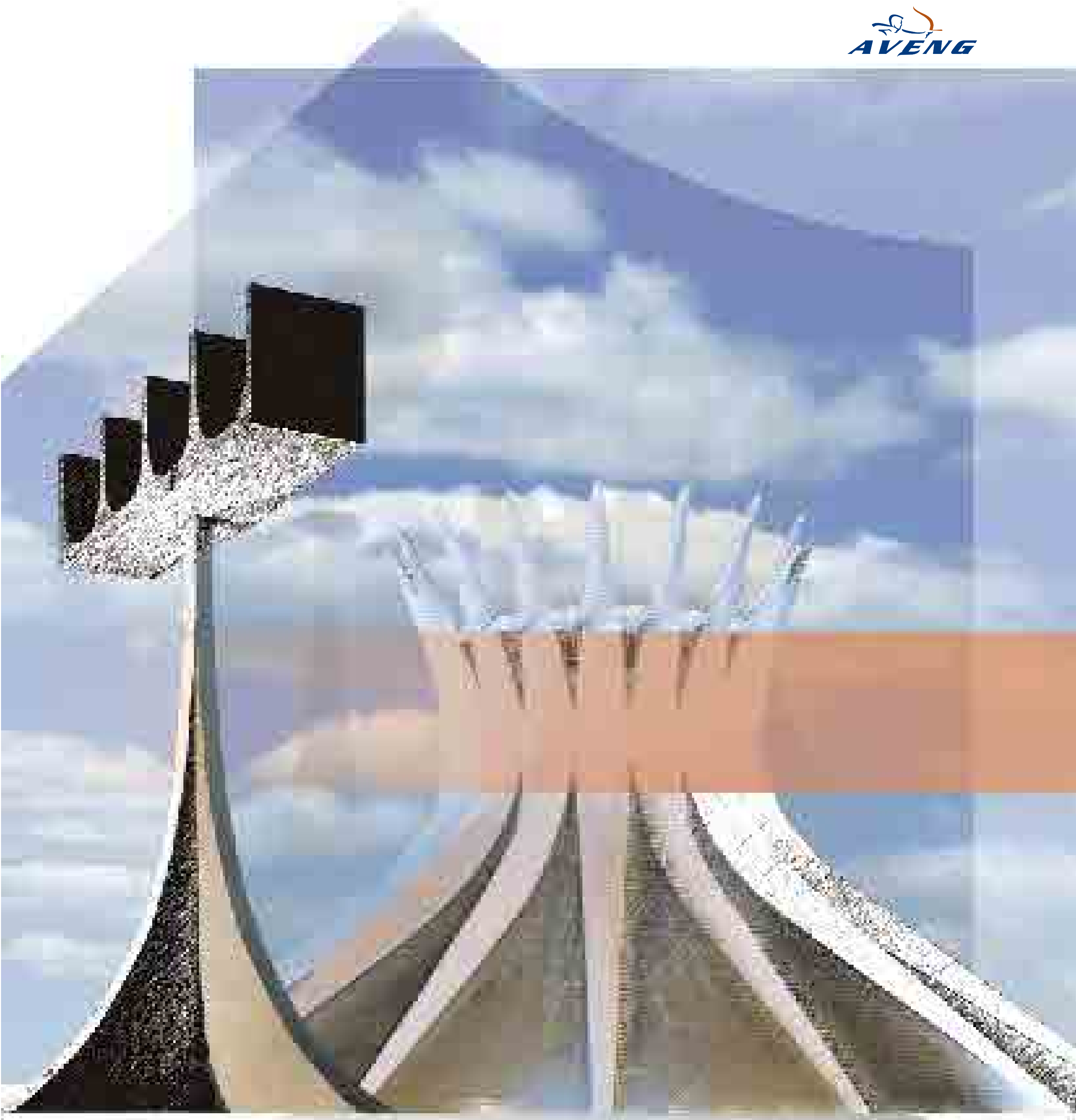
| Period | YOY growth |
|---|---|
| Second half 2002 | 9,9% |
| First half 2003 | 4,5% |
| Second half 2003 | 6,6% |
| First half 2004 | 17,3% |

This performance has mostly been possible through the low interest rate driven upswing in residential building activity, and booming demand for shopping space buoyed by improved business conditions in the retail sector. The situation is not sustainable in the medium term, although the recent cut in interest rates will help fuel demand for a while longer.

Longer-term cement growth averages around 3% per annum. An upturn in civil engineering and mining demand is highly likely, driven by infrastructure deficiencies and the need to maintain South Africa's position in the mining resources arena. This should help offset a declining consumer-driven demand.

The key challenges in the cement industry remain the introduction and timing of new capacity and optimising regional supply and demand from a transport perspective. Cement has very few competitive alternatives in concrete structure applications (80% of demand), but remains vulnerable to other building materials in the case of concrete products (20% of demand).

The Cabinet-approved five-year plan of road upgrades bodes well for the aggregates industry, given that half the national roads in South Africa are more than 20 years old, with most overdue for maintenance and repair. Growth in this industry of 3% to 4% per annum is forecast over the medium term.



The Cathedral Metropolitana: Sao Paulo, Brazil
Architect: Oscar Niemeyer

This one of several buildings designed by Brazilian architect Oscar Niemeyer in the 1960s for the Brazilian capital, Brasilia. The mostly underground cathedral has sixteen curved columns and a stained glass interior. Standing near the entrance are four large statues known as the Four Evangelists. In his architecture, Niemeyer combined modernist techniques and materials with curving lines and free use of form reminiscent of the Brazilian baroque period.

# Board of directors

Board of directors

***Richard Savage (61)*** *Independent non-executive director*
*Chairman of the board*
*Member of the audit and risk, nomination, remuneration and tender risk evaluation committees*
MCom

Richard Savage was previously managing director of Haggie Limited. He joined Anglovaal Industries Limited in 1991 and was appointed managing director in 1996. He continued as a director of Aveng Limited on its listing and succeeded Basil Hersov as chairman in 2001. He is a director of Holcim (South Africa) (Pty) Limited, Grinaker-LTA Limited, and Trident Steel Holdings (Pty) Limited.

Richard is also a director of Goodyear South Africa and Air Liquide Southern Africa (Pty) Limited. He is a governor of Rhodes University.

***Phil Erasmus (63)*** *Independent non-executive director*
*Deputy chairman of the board*
*Chairman of the remuneration and nomination committees and a member of the tender risk evaluation committee*

Phil Erasmus is the retired CEO and the former principal shareholder of Tanker Services, Waste-tech and Sani-tech and former head of the Imperial transport division until his retirement in 1995. He is a director of Imperial Holdings Limited and joined the Aveng board prior to its listing in 1999.

***Carl Grim (53)*** *Chief executive*
*Chairman of the executive and tender risk evaluation committees*
Pr Eng, BSc Eng (Civil), BA, MBA, MSAICE, FSAAE. 6 years' service

Carl Grim acquired varied on-site experience in the construction industry before joining Darling & Hodgson Limited as marketing manager of its materials division in 1982. Following a stint as regional director for its Cape Ready Mixed Concrete and Quarrying businesses, he was appointed managing director of Blue Circle Cement in 1990, managing director of Darling & Hodgson Limited in 1992 and managing director of the Materials Operating Group of Murray & Roberts Limited in 1995.

Concurrent with the unbundling of Anglovaal in 1998, Carl resigned from Murray & Roberts to take responsibility for Aveng Limited, which was then listed on the JSE in July 1999. He is chairman of Grinaker-LTA Limited and Trident Steel Holdings (Pty) Limited and a director of the Australian-based McConnell Dowell Corporation Limited and Holcim (South Africa) (Pty) Limited. Carl is a past president of the Steel & Engineering Industries Federation of South Africa and the Institute of Quarrying. He serves on the Construction Industry Development Board, the board of the National Business Initiative and the advisory boards of the Wits Business School and the UCT Department of Construction Economics and Management.

## Colin Campbell (67) *Independent non-executive director*

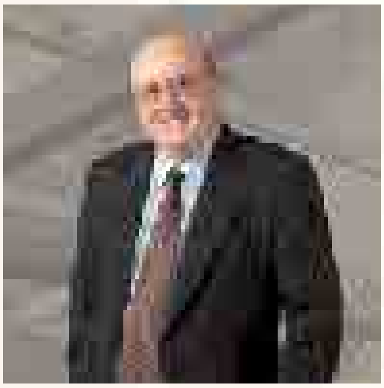
*Chairman of the audit and risk committee and a member of the tender risk evaluation committee*
CA(SA), FCA, PMD (Harvard)

Colin Campbell joined LTA's Steeledale operations as a financial manager in 1965. He became managing director of Steeledale Reinforcing and Trading in 1972 and then a director of LTA Limited in 1974. In 1983 he was appointed deputy chairman of Steeledale. Three years later he became chairman of Steeledale and then three years after that deputy group managing director of LTA. In 1994 he became the managing director of LTA, then in 1999 the chairman, retiring in December 2000. In November 2000, Colin joined the Aveng board as a non-executive director. In 1998 he served as president of SEIFSA.

## Frank Crowley (59) *Executive director*

*Chairman of McConnell Dowell Corporation*
*Member of the executive and tender risk evaluation committees*
Pr Eng, BE (Civil), FSAAE, FSAICE, FSAAA. 33 years' service

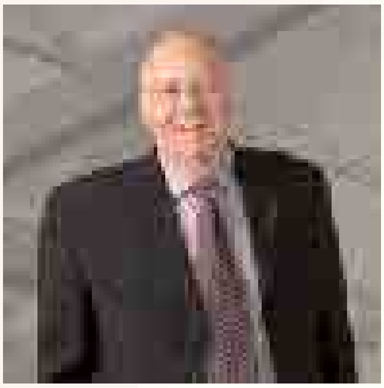
Frank Crowley joined LTA in 1971 on contracts for roads and railways in South Africa. In 1978 he became the managing director of LTA Earthworks North and thereafter chairman. In 1986 he was appointed the managing director of LTA earthworks division. Two years later he became the managing director of LTA Civil and earthworks division and then in 1989 the chairman. In the same year he became a director of LTA and in 1996 the deputy group managing director. In 1999 he was appointed group managing director. Frank moved from Grinaker-LTA in July 2003 and has been appointed chairman of the Australian-based construction company, McConnell Dowell Corporation Limited. Frank was appointed to the Aveng board in November 2000. In 1997 he was president of SAFCEC.



## Ben Fourie (57) *Managing director of Trident Steel Holdings (Pty) Limited*

*Member of the executive committee*
29 years' service

Ben Fourie joined Trident Steel in May 1975 and was appointed a general manager and director in October 1977 at the time when Anglovaal Industries acquired a controlling interest in the company. In 1989, he was promoted to the position of managing director of Trident Steel (Pty) Limited and in July 2003 was appointed as managing director of Trident Steel Holdings (Pty) Limited.



## Dennis Gammie (50) *Financial director*

*Member of the executive committee*
CA(SA). 6 years' service

Dennis Gammie spent nine years with the Imperial Group, where he held financial and other directorships. He joined Murray & Roberts Limited as financial director of the Materials Operating Group and after the sale of Blue Circle Limited was appointed to the board of Murray & Roberts Limited as financial director. Dennis joined Aveng Limited as financial director in 1998 and is a director of Aveng Australia Holdings Pty Limited, Grinaker-LTA Limited, McConnell Dowell Corporation Limited, Trident Steel Holdings (Pty) Limited and Holcim (South Africa) (Pty) Limited.

**Leah Gcabashe (47)** *Independent non-executive director*
BA Admin (NUL), BA Law (Cantab), LLB (Natal)

Leah Gcabashe is a practising advocate, and a member of the Johannesburg Bar. Prior to this she held the position of head-legal services in the Presidency. She has amongst other things served as a member of the Truth and Reconciliation Amnesty Committee, lectured at the University of Natal (Durban) and worked as a journalist.

She currently serves as a Trustee of Penryn Trust, and of Philisisizwe Association of Development. She is a non-executive director at the State Information Technology Agency and Electronic Communications Security (Pty) Limited.

Leah was appointed to the Aveng board in August 2003.

**James Hersov (39)** *Independent non-executive director*
*Member of the corporate social investment, nomination and remuneration committees*
MA (Cantab)

James Hersov was the co-founder and joint managing director of Otterbea International (Pty) Limited from 1989 to 1994. He was appointed a director of Anglovaal Limited in 1994, as well as a member of the executive committee and a director of all the group's major subsidiaries. From 1997 to 1999 he was an executive director of Anglovaal Industries Limited. He was a director of Control Instruments Group Limited from 1994 to 2000 and a director of WesBank from 1998 to 2000. He is still a director of Anglovaal Industries Limited. James was one of the founding directors of Aveng, having joined the board in 1999.

**Howard Jones (55)** *Group managing director of Grinaker-LTA Limited*
*Member of the executive and tender risk evaluation committees*
Pr Eng, BSc Eng (Civil), MSAICE, FCIOB. 32 years' service

Howard Jones joined Grinaker in January 1972 as a site engineer in Phalaborwa. He spent four years on various contracts in Northern Natal as a site agent. In 1975/76 he joined consulting engineers, Horne, Glasson and Partners as a design engineer in order to obtain his Pr Eng. Appointed a director of Grinaker Civil Engineering Transvaal in 1982, he was transferred to the building division in 1984 and assumed the position of managing director of Grinaker Building Inland in 1989. In 1994 he was appointed to the board of Grinaker Construction Limited as executive director of the building division, and was promoted to the position of group managing director in 1998. In August 1999 he was appointed to the board of Aveng as an executive director. In 2001 Grinaker Construction Limited and LTA Limited merged and after three years as deputy managing director was appointed group managing director of Grinaker-LTA Limited in July 2003.

**Karl Meissner-Roloff (51)** *Non-executive director*
*Managing director of Holcim (South Africa) (Pty) Limited*
BSc Civ Eng (Hons)

Karl Meissner-Roloff joined Alpha in 1979 and held various general management positions in the Alpha Group. In 1996 he was appointed director of the stone and ready-mixed concrete division and in 2000 director of the cement division of Alpha. In 2003 Karl was appointed managing director of Holcim (South Africa) (Pty) Limited. He is currently also a director of Tanga Cement Company Limited (Tanzania) and the chairman of the Cement and Concrete Institute.

**Vincent Mntambo (46)** *Independent non-executive director*
*Chairman of the corporate social investment committee and member of the nomination and remuneration committees*
BJuris, LLB, LLM (Yale)

Vincent Mntambo is the founder and director of Sediba Consulting. He was previously senior lecturer at University of Natal, executive director of the Independent Mediation Services of South Africa and director-general of the Gauteng Provincial Government. He is chairman of Eyesizwe Mining (Pty) Limited; chairman of the Commission of Conciliation, Mediation and Arbitration and non-executive director of Eyesizwe Coal (Pty) Limited. Vincent was appointed to the Aveng board in July 2001.

**Ami Mpungwe (53)** *Independent non-executive director*
BA (Hons)

Ami Mpungwe was appointed Tanzania's first High Commissioner to South Africa in 1994. Prior to that, he served as advisor to the President and director of Africa and Middle East in the Foreign Ministry. Since his early and voluntary retirement from the diplomatic corps he has been appointed to several company boards in both South Africa and Tanzania.

In 1999 Ambassador Mpungwe received the Order of Good Hope from President Thabo Mbeki, South Africa's highest award granted to foreign citizens for his contribution to peace, democracy and economic change in Africa, the SADC region and South Africa, and for establishing close bilateral ties between South Africa and Tanzania.

Ami was appointed to the Aveng board in September 2001.

**Brian Steele (61)** *Independent non-executive director*
*Member of the audit and risk committee*
BCom, CA(SA), MBA (Stanford)

Brian held several financial directorships in the Barlow Rand Group prior to its unbundling, including CG Smith Limited, CG Smith Foods Limited and Tiger Brands Limited. He subsequently spent four years as financial director of Malbak Limited and then returned to Barloworld Limited in the position of chief group financial manager until his retirement in 2002. He was appointed to the Aveng board in January 2003.

Brian is also a director of African Bank Investments Limited.

**Mervyn Taback (57)** *Non-executive director*
BCom, LLB, H Dip Tax

Mervyn Taback is the senior partner of Tabacks, a leading Johannesburg-based legal firm. He has had a long association with Alpha and Trident and was involved in both the Grinaker and LTA schemes of arrangement and in the restructuring of Anglovaal, which resulted in the formation of Aveng. Prior to founding Tabacks in October 2000, he was a director of Deneys Reitz and a senior member of that company's commercial and corporate division. Mervyn was appointed to the Aveng board in June 2001.

L'Hemisferic: Valencia, Spain
Architect: Santiago Calatrava

Situated in the City of Art and Science it is known as the "Eye of Knowledge", and the globe which houses the Omnimax Theatre, is roofed by an elliptical shell structure.

Elongated aluminum awnings fold upwards to form a brise-soleil roof that opens up along the curved central axis. The brise-soleil is moved hydraulically up the outside of the building by telescopic cylinders. Set inside the building is a walkway that connects a sunken gallery, ticket booths, a restaurant and other services.

Richard Savage

Chairman's statement

# Chairman's statement

*"While results for the year are in line with indicators given at the time of the group's interim results, they are disappointing. The Steel & Allied businesses and our cement associate delivered commendable performances"*

Results for the year are in line with indications given at the time of the group's interim results. A sharp decline in profitability occurred in construction, in particular Grinaker-LTA Roads & Earthworks, with overall profitability being further eroded by a significant appreciation of the rand. Steel & Allied produced good results, as did our cement associate. Net debt remained at a similar level to last year, but the net debt to equity ratio deteriorated because of the currency impact on shareholder funds.

## Operations

Conditions in construction in both Africa and Australia continue to be challenging. The strong rand had a serious impact on the mining industry causing many construction projects to be postponed or cancelled.

The performance of Grinaker-LTA Roads & Earthworks has been disappointing. The three African road contracts which gave rise to the February profit warning have been completed, with several major claims against the respective customers still outstanding. Grinaker-LTA Opencast Mining also had a disappointing year, largely because of the strong rand. Operations have been reviewed and costs cut back significantly.

McConnell Dowell, our Australian subsidiary, has had a difficult year, but good progress has been made in streamlining the operation. Australia has been particularly successful in attracting foreign investment because of its stable economic environment, high productivity and low wage awards. During the past few years the Australian economy has enjoyed exceptional growth.

The Steel & Allied business has continued to perform well, in spite of industry tonnage being flat for the year. Costs have been contained, particularly so in Grinaker-LTA Manufacturing and cash flows are good. Trident Steel continues to invest in order to provide its customers with a broader range of products and services.

Holcim (South Africa), our cement associate, continues to produce excellent results and generates substantial cash. During the last six months the name of the group was changed from Alpha to align it with the worldwide brand. One of the large kilns was upgraded at a cost of R340 million, giving the company increased capacity and improved efficiency.

Last year I stressed how important it was for South Africa to have an effective railway system, well-maintained roads and a reliable and cost-efficient electricity supply. We welcome the shake-up at Transnet but continue to be concerned about ongoing operational hitches and a pending 40%

"While the markets for the next six months will continue to be tough, the second half of the financial year looks more promising"

tariff increase facing the cement industry which we do not believe is in the best interests of South Africa as a whole. It creates uncertainty in the minds of investors and more importantly, will have the effect of moving more heavy traffic to the overburdened road system. Heavy vehicles do costly damage to roads. It is in the interests of our country that bulk transport is handled by the rail system to the greatest possible extent. Transnet is an agency of government. Pricing decisions should be made in the broader national interest.

### *Black economic empowerment*

The BEE challenge has occupied management and the board over the past sixteen months. The recently announced transaction to sell 25% of our South African subsidiaries to an empowerment consortium led by TisoGroup has been structured to enable the group to operate successfully in the future. The transaction will ensure that the wider community, most importantly our loyal staff, reap the rewards.

We believe that business has a pivotal role to play in community investment projects. The trust which has been established in conjunction with our black empowerment initiative will play an important role in this regard with the emphasis being placed on education and assisting local communities with job creation projects.

### *Outlook*

The medium-term outlook for the construction industry in South Africa is good, particularly following the winning of the 2010 Soccer World Cup bid. Steel & Allied will continue to perform well. Cement demand is expected to flatten off and then decline before growing again.

While the markets for the next six months will continue to be tough, the second half of the financial year looks more promising.

The volatility of the rand will continue to affect our major customers and their investment plans. We need to resolve a number of large claims and exercise greater caution in the future when tendering for projects in the rest of Africa and the Middle East. Following the corrective management action taken in Grinaker-LTA, we are anticipating an improvement in its performance.

### *Appreciation*

The year has proved to be difficult with the poor overall result masking some excellent divisional contributions.

The Black Economic Empowerment Initiative has been time-consuming, but has been handled well.

I would like to record a special vote of thanks to Colin Campbell, the chairman of our audit committee, who will be retiring at the annual general meeting. He joined LTA in 1965 and has given exceptional service to the industry. We are also grateful for the contributions of Mervyn Taback and Ami Mpungwe who retire by rotation but due to heavy personal workloads will not be making themselves available for re-election.

Carl Grim and his executive directors continue to give of their very best and we are confident that the fruits of their efforts will be reflected in an improved group performance. I wish to express my appreciation to the non-executive directors for the additional time they made available to review the BEE transaction, and for their attendance at the large number of meetings needed to deal with the matter during the last twelve months.

**Richard Savage**
*Chairman*
10 September 2004

Carl Grim

# Chief executive's report

*"The past year is behind us. Corrective action has been taken. An industry-leading BEE transaction was consumated. Group companies are well positioned to assist government with planned 2010 Soccer World Cup and other infrastructure projects. All this is good news for shareholders"*

## Financial overview

The past year has been the most difficult in Aveng's five-year history. In January we warned the market that earnings could be as much as 30% down as a result of the increasingly strong rand. This announcement was predicated on a second half exchange rate of R7 to the US dollar. In February the board informed the market that three loss-making road contracts in Africa would have the effect of reducing Aveng's predicted headline earnings to approximately 50% of the prior year.

Against this background and that of a substantially stronger rand than anticipated in the profit warning, I am pleased that headline earnings decline has been restricted to 52% for the year, delivering R220 million (2003: R462 million) and headline earnings per share of 57 cents (2003: 119 cents). A dividend of 14,0 cents (2003: 30,0 cents) per share will be paid to shareholders.

The tough currency trading environment is reflected in the 11% decline in revenue and in total ordinary shareholders' funds. The group responded by cutting overhead costs by 10% and by focusing on cash, managing to reduce net debt by a small margin. Unfortunately the reduced shareholders' equity base resulted in the net debt-to-equity ratio deteriorating from 44% to 52% over the period.

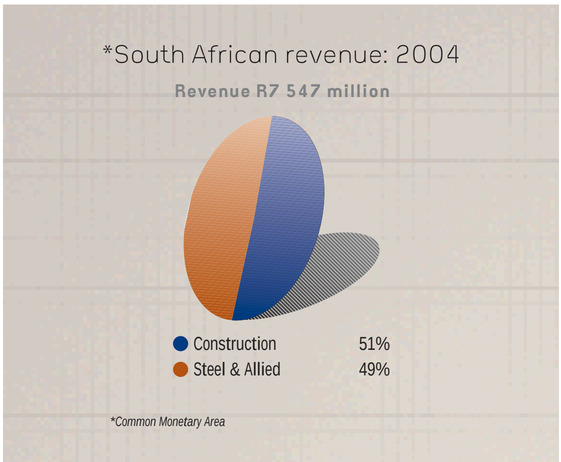
The group's return on average equity of 8,2% for the year fell short of its objective of CPIX + 10%. The rolling average return on equity for the past six years is equal to 15,5% or CPIX + 8,3%.

The most disappointing feature of the past year was the R179 million operating loss returned by the Construction cluster. This was offset to some extent by a pleasing R76 million profit improvement from

the predominantly South African-based businesses in the Steel & Allied cluster. This swing in fortunes away from construction also reflected in the revenue line where construction revenues were down by 23% and Steel & Allied revenues up by 22%. Largely as a result of the strong rand, the ratio of assets between the two clusters is now weighted 55% to 45% in favour of construction compared to the 70% to 30% split a year ago. The capital expenditure ratio between these two business clusters shows a similar trend.

Income from associates and joint ventures, which is largely Holcim (South Africa) but does include some loss-making construction joint ventures, improved by 19% to R184 million.

The impact of the rand's strength also reflects in the declining revenue contribution from Aveng's international businesses. The past year's 29% reduction in Africa and Middle East revenue was the principal cause of the group's revenue decline. South African revenue was only marginally down, lifting its contribution to 64% of Aveng's revenue compared to 59% one year ago and 55% two years ago. The group's direct exposure to dollar-based revenues is supplemented by a large indirect exposure as at least 50% of Aveng's South African-based revenue is generated from mining and energy sector customers who themselves have a large dollar exposure that influences their investment decisions.




## Construction

| Rm | 2004 | 2003 | % change |
|---|---|---|---|
| Revenue | **7 585** | 9 832 | (23) |
| Operating (loss)/income | **(179)** | 343 | – |
| Assets | **3 378** | 4 962 | (32) |

The construction cluster consists of Grinaker-LTA Limited (excluding Grinaker-LTA Manufacturing) and the now 100%-held McConnell Dowell Corporation Limited. Contributing 75% of cluster revenue, Grinaker-LTA offers a wide range of construction services from building and property development across all the engineering disciplines to contract mining. Its broad base of customers are spread across the central time zone of southern Africa, west, east and north Africa and into the Middle East. McConnell Dowell, Aveng's eastern time zone construction business, is headquartered in Melbourne Australia. Its specific construction capabilities include heavy marine infrastructure, mining and energy projects and pipelining in Australia, the Pacific region and South East Asia, with a limited presence in the Middle East.

These two construction groups are and will continue to remain operationally independent as it is physically impossible to achieve operational integration across nine time zones. Grinaker-LTA and McConnell Dowell do, however, operate together in joint venture where opportunities arise for the two construction groups to derive mutual advantage by combining their complementary skills. An example is the recently completed R2,5 billion Sasol pipeline project where McConnell Dowell's pipelining experience was combined in joint venture with Grinaker-LTA's customer knowledge and regional capabilities.

During the year under review, revenue for the cluster declined by 23%, partially as a result of the 24% deterioration in the average rand/US dollar exchange rate over the period. Because 50% of the cluster's revenue was generated outside South Africa, principally in US or Australian dollars, about half of this revenue decline could probably be attributed to the currency movement. The other half stems from poor trading conditions and curtailed operations.

Profit performance for the period was disappointing. While McConnell Dowell made a small loss of Aus$1,9 million, Grinaker-LTA, and in particular its Roads & Earthworks business unit was the major reason for the non-currency component of the R179 million loss reported by construction.

In February this year the market was alerted to problems uncovered on three road contracts in Africa. The many reasons behind these problems were dealt with comprehensively when Aveng announced its interim results in March 2004.

Grinaker-LTA has one remaining road under construction in Africa outside of RSA and the adjacent countries – a total of only 165 kilometres in one location compared to the peak of over 2 000 kilometres

AquaDom: Berlin
Architect: nps Tchban and Voss

25 metres high and 11,5 metres wide, the Aquadom is in the centre of the CityQuartier "DomAquaree".

The biggest feat of the biggest aquarium in the world that holds one million litres of water is the 14 metre high seamless column of acrylic glass. A company in Colorado developed an adhesive technology for acrylic glass that can seal acrylic components without leaving visible joining marks. This not only enhances the view from afar, but also contributes to the journey through the middle of the water column in the elevator. With room for about 30 people, it takes you through the mysterious world of coral reefs and their inhabitants.

spread over multiple locations in 2002. This Tanzanian contract is being carefully supervised, with all the very expensive lessons learnt over the past four years being rigorously applied. Its performance will be taken into account in reviewing group policy on road construction outside RSA in the future.

The difficulties in Grinaker-LTA led to a critical review of all business units, including the offshore operations. The objective of the review was to ensure that the appropriate disciplines were in place to minimise the possibility of a future occurrence of problems of this nature. In addition, Grinaker-LTA had to reduce its overall cost base to enable it to be able to continue to compete successfully on international projects at an exchange rate of R7/US dollar. Management action resulted in a substantial reduction in overhead costs which unfortunately included the loss of 2 500 jobs, spread across all employee grades. The Roads & Earthworks business unit was downsized to half its 2002 size and reorganised to ensure that the necessary management skills existed at all levels.

All costs associated with the right sizing of the business have been taken to account in the current financial year and the plant fleet was reduced to meet the needs of the refocused business unit, thereby allowing savings to be made in the group's capital expenditure programme.

Other disappointments came from a below par performance in the Opencast Mining business unit and losses on a contract in Angola and another in the UAE.

The secondary effects of the strong rand (and to a lesser extent, the Australian dollar) on local customers have been severe, reflected in numerous project delays and cancellations. With its focus on larger export-oriented and therefore exchange rate-

"A critical review of Grinaker-LTA led to an R80 million reduction in overhead costs and a halving of the Roads & Earthworks business"

sensitive customers such as those found in the mining and energy sectors, Grinaker-LTA has limited exposure to the interest rate-driven residential construction market where barriers to entry are low and risks relatively high.

Although performance in 2004 was disappointing, Grinaker-LTA achieved successes in a number of areas. The Property Development business unit produced pleasing results as did Process Engineering, Underground Mining and Alpret Control Specialists. A number of challenging projects, including the Quay Wall in Durban Harbour and the 876 kilometre gas pipeline from Temane to Mozambique to Secunda, were successfully completed this year.

Undoubtedly the most important achievement of the past year was the "closure" that has finally been achieved on the merging of Grinaker and LTA. Putting two groups together, each with approximately 10 000 people, is inordinately difficult – particularly where each group is populated by people justifiably proud of their company's long and successful record. While top level integration is relatively easily achieved, introducing change deep down in the bowels of a highly decentralised organisation is practically impossible unless a substantive reason (in the judgement of the recipient) can be given for doing things differently. A loss of the magnitude tabled by

## Recently awarded contract: Berg River Dam

Trans Caledonian Tunnel Authority (TCTA) acting as an agent for the Department of Water Affairs and Forestry, has awarded the contract for the construction of the R550 million Berg River Dam on the Berg River near Franschhoek, Western Cape to a consortium of South African construction companies and empowerment partners led by Grinaker-LTA. The project will increase the yield of the Western Cape water system by 18%.

The consortium comprises Grinaker-LTA, Group 5, Wilson Bayley Homes Ovcon (WBHO) and an empowerment group known as Western Cape Empowerment Contractors (WCEC). WCEC will afford smaller contractors from the area an opportunity to gain experience and share in the benefits of the project. Construction started in July 2004, with the first water due to be delivered to Cape Town and the downstream water users by the end of 2007.

### Dam features

The Berg River Dam will be the highest concrete-faced rockfill dam in South Africa, other features are:

| | |
|---|---|
| • Surface area | 535 ha |
| • Gross storage capacity | 130,1 million $m^3$ |
| • Length of dam wall | 990 metres |
| • Rockfill volume | 3,2 million $m^3$ |

### Infrastructure

The access road to the Berg River Dam site is currently under construction. Eighty construction houses will be built in the village of La Motte and to facilitate the participation of smaller contractors, the tender will be split into four blocks of 20 houses.

### Social development

To ensure full participation of the local communities in the project, the contractor will source at least 75% of the workforce from a database of local inhabitants (Franschhoek and Dwars River Valley) through a dedicated labour information office and 5% from the rest of the Western Cape. The contractors are obliged to train local job seekers to meet the quota to ensure compliance with the contract.

Grinaker-LTA this year enabled Howard Jones and his team to make the necessary changes with the support of those people operating at the coal face that are so critical to the group's future success.

Transparency is significantly better than before. There is a new willingness to critically review entrenched policies and systems and to discuss problems openly. The new spirit de corp and the rising morale are reflected in the team's recently adopted strategic purpose titled "A better way to build the future" and the detailed planning that lies behind it.

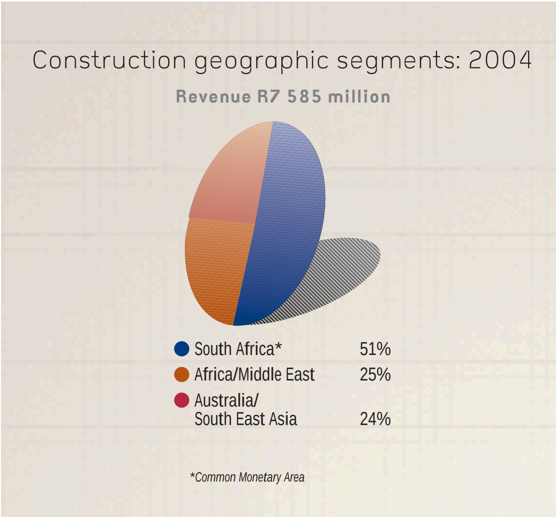
Although the financial scars left by the past year are undeniable, there is absolutely no doubt in the minds of the directors of Aveng that Grinaker-LTA is in every sense a better and more competitive company today than it was a year ago.

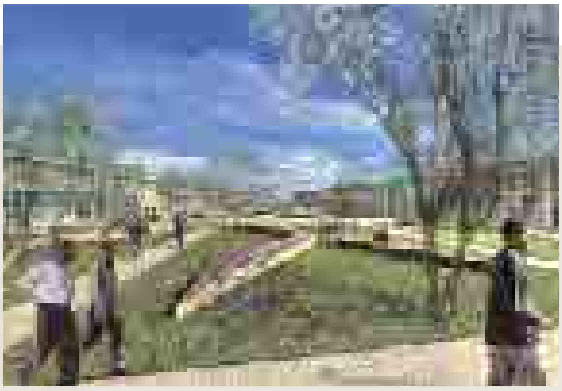
The 2004 construction capital expenditure of R257 million (2003: R664 million) reflects severe curtailment in an attempt to conserve cash but was also made possible by the decision to downsize the capital intensive Roads & Earthworks business unit. Capital expenditure will continue to be managed tightly in the year ahead.

Looking forward, construction's two-year order book looks high, given Aveng's "70% to 100% of revenue" target window. It needs to be remembered however that construction revenue has declined by 23% in the past year and that the natural time lag inherent in any order book needs to be taken into account. Averaging the 2003/2004 revenues probably gives a better perspective, yielding an order book to revenue ratio of 100%, the top end of the group's target window.

| Rm | Two-year order book | % of revenue 2004 | % of revenue 2003/2004 |
|---|---|---|---|
| Grinaker-LTA | 6 945 | **122** | 102 |
| McConnell Dowell Corporation | 1 760 | **93** | 93 |
| Total Construction | 8 705 | **115** | 100 |

While some progress has been made during the past year in settling claims, this progress needs to be accelerated in the year ahead. Management is confident that the dispute at the Marikana Mine referred to in the financial director's report will be settled in our favour within the next financial year. The emphasis going forward will be on cash management and on returning construction to profitability.





*Photographs courtesy of studioMAS*

## TRIBUTE TO WALTER SISULU

Destined to be a national monument, the Walter Sisulu Square of Dedication project is being built on Freedom Square in Kliptown, Soweto, where the Freedom Charter was drawn up on 25 June 1955. The R100 million construction contract was awarded by the Johannesburg Development Agency to Grinaker-LTA Building Inland. Work started in February this year and contract completion is scheduled for June 2005.

In keeping with the visionary person to whom it is dedicated, the concept is a multi-functional structure designed to attract economic benefits and development for the surrounding community. Existing historical structures are being retained and the colourful, lively trading activity that already characterises the square will be encouraged to continue. The new facilities will comprise a tourist information centre, an auditorium, training centres, shops and a covered market-place.

Two buildings, each approximately 300 metres long will stand 100 metres apart facing onto a 30 000 $m^2$ square – probably the largest in South Africa. Johannesburg-based architects, Studio MAS, won an international competition with their unique design blending a modern off-shutter concrete skeleton with panels that have a distinctly African theme. Emphasis is on robustness in order to be durable and adaptable and respond to present and future demands.

The challenge of achieving the required high standard of finishes is particularly rewarding in view of the fact that a substantial amount of work is carried out by local small and medium-sized enterprises.

An important contribution by Grinaker-LTA is not only to provide employment to the local community but mainly to transfer skills, both technical and business, to local SMMEs and assist with their procurement, often problematical due to lack of financial backing.

Soweto is already one of the top three tourist destinations in South Africa, along with Cape Town and the Kruger National Park. Walter Sisulu Square of Dedication is destined to be one of the major tourist drawcards.



## Steel & Allied

| Rm | 2004 | 2003 | % change |
|---|---|---|---|
| Revenue | **4 155** | 3 412 | 22 |
| Operating income | **404** | 329 | 23 |
| Assets | **2 705** | 2 164 | 25 |

The Steel & Allied strategic cluster is made up of those businesses that trade and beneficiate steel as well as those that manufacture steel and concrete products for customers in the construction, mining, manufacturing and motor industries. The components of Steel & Allied include Grinaker-LTA Manufacturing, Trident Steel, Trident Speciality Steels, Trident Sterling Tube and the Aveng corporate office. Previously called "Infrastructure and Mining Services", Grinaker-LTA Manufacturing contributes about one third of the Steel & Allied revenue and is made up of the manufacturing businesses in Grinaker-LTA. These include the cutting and bending of concrete reinforcing bar, the manufacture of steel mesh, concrete pipes, railway sleepers and a host of specialised concrete and steel products for the mining industry.

The South African steel market has been extremely volatile in recent years with tonnage growing by 18% in 2002 and then declining by 17% in 2003. The quarterly tonnages published by Ispat/Iscor for the period of Aveng's past financial year, compared to the comparable quarters in the prior year illustrate the point:

| | | |
|---|---|---|
| 2003 | Third quarter | 23% down |
| 2003 | Fourth quarter | 12% down |
| 2004 | First quarter | 12% up |
| 2004 | Second quarter | 31% up |

Prices have been similarly volatile over the past two years. While there have been a number of increases and decreases, the overall average price movement for the year to June 2004 was an increase of between 20% and 25%, depending on the product. While these movements do reflect the growth in international steel prices, the volume and price volatility experienced has made inventory and margin management extraordinarily difficult.

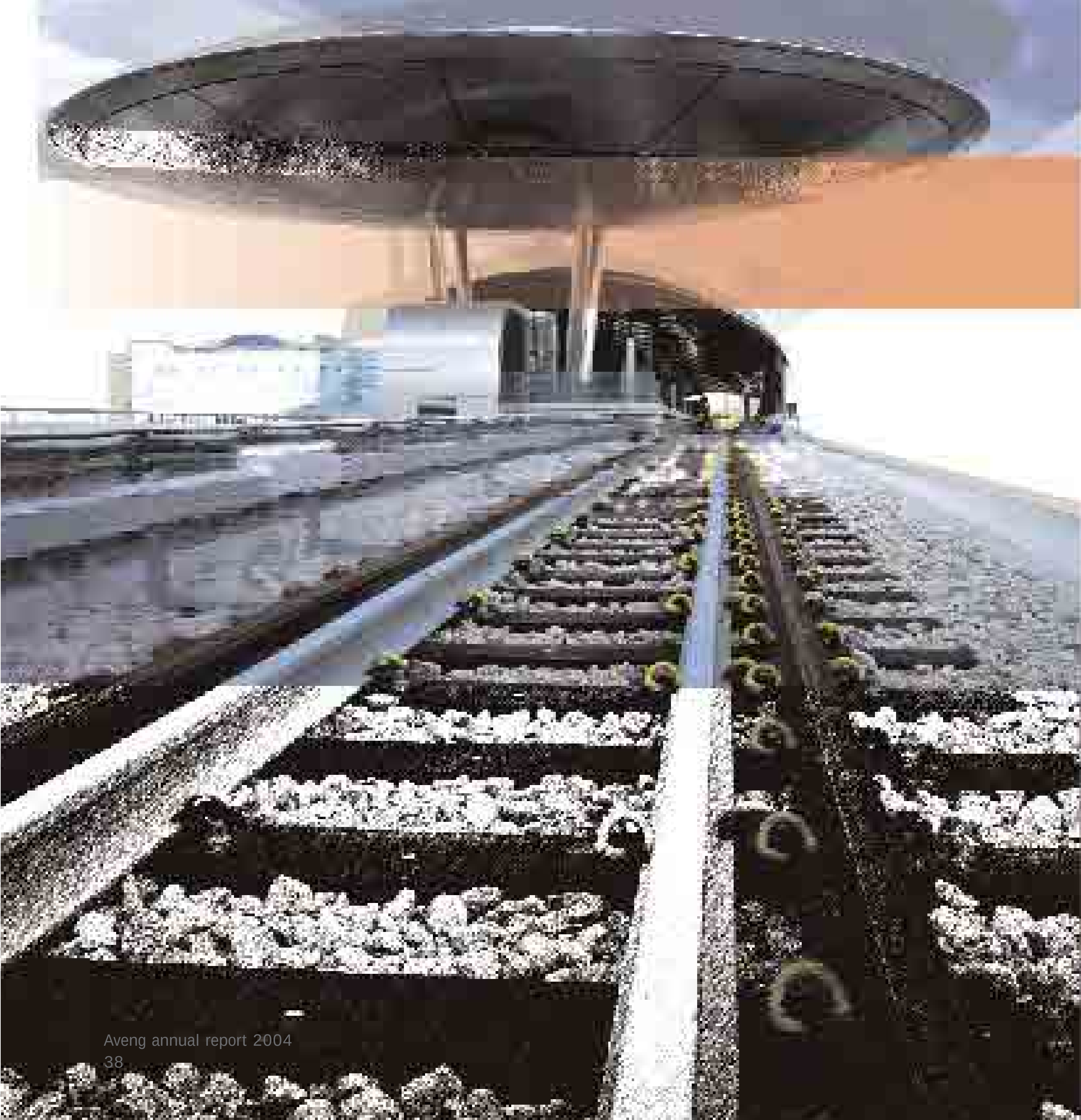
While some of Trident's market segments, performed well, construction, mining and manufacturing, were less buoyant – almost entirely the result of customers not being able to come to terms with the strong currency. More recently, there has been some growth in steel-based construction projects such as retail outlets aimed at the consumer markets.

The performance of Grinaker-LTA Manufacturing's market was mixed. Demand for consumer linked products used for residential development was buoyant, while the demand for mining sector products was well below expectations.

Expo station: Singapore
Architect: Foster and Partners

Built to last 100 years, a 40 metre diameter stainless steel disk, and the 130 metre long eclipse clad in titanium roof structures, shelters the passenger concourse of the terminals.

The building built on the new Changi Airport lines serves the new Singapore Exhibition Centre. The dramatic visual effect of the building is secondary to its practical and environmental significance. In the warm south Asia climate the reflection of daylight (from the stainless steel) and deflection of the sun's rays (off the titanium), helps to create a microclimate that is up to four degrees cooler than the outside temperature.



"Steel & Allied performed well, justifying the cluster's capital expenditure of close to three times depreciation over the past three years"

A number of capital projects were completed during the year, including the R100 million Cape Town and Saldanha Bay service centres. EA Steel, purchased some years ago, has now been integrated into Trident's Cape Town business. Other capital projects included additional bending and laser-cutting capacity. During the year a project to integrate the Trident Sterling Alrode and Spartan factories into a single facility at Alrode was initiated. The opportunity will be taken to simultaneously modernise and upgrade some of the pipe manufacturing equipment.

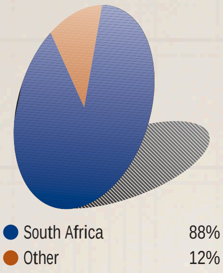
The strategy to capitalise on opportunities in the Steel & Allied cluster is reflected in the disproportionately high level of capital expenditure in recent years. With a three-year capex to depreciation ratio of close to three, this cluster now accounts for 45% of Aveng's managed assets. The group will continue to invest in capital projects in this cluster that show attractive returns.

The increasing importance of Steel & Allied to Aveng is also reflected in its 35% share of group revenue, up from 26% a year ago. Operating income increased by a commendable 23%, despite some sectors in the cluster experiencing difficult operating conditions.

While the management of Trident continue to do an outstanding job, the management of Grinaker-LTA Manufacturing deserves special mention. In the face of some difficult market conditions, they quickly restructured their business, reduced overheads by 23% and delivered budgeted profits for the year.

Steel & Allied geographic segments: 2004

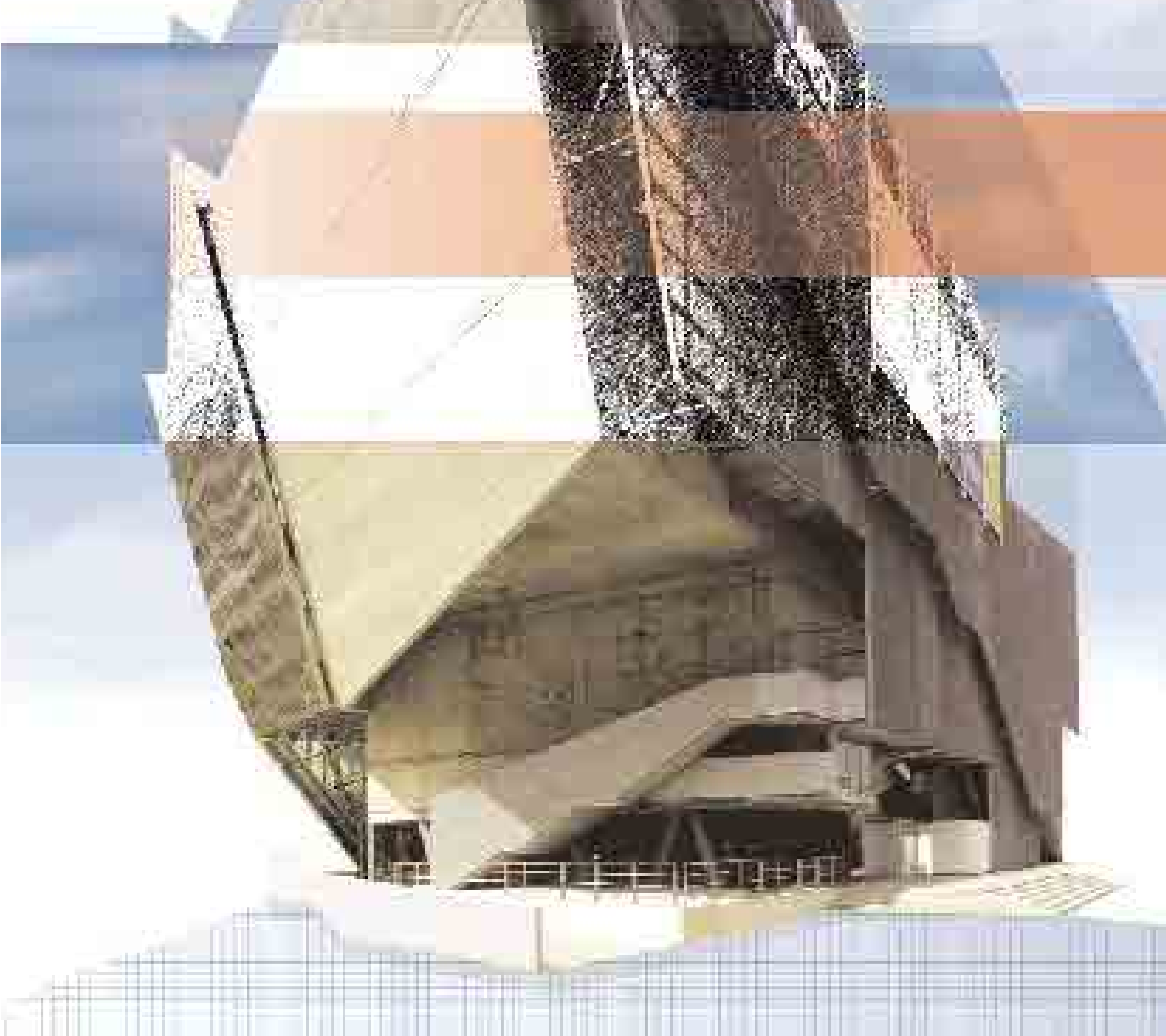
Revenue R4 155 million



UFA Cinema Center: Dresden
Architect: Coop-himmel(b)lau

This building connects a Cinema block (seating 2 600 people), and the Crystal (a glass shell) that serves as a foyer and public square.

A result of a planning competition Pragerstraße Nord, the cinema center interweaves public interiors and passageways in an attempt to energise the new center of Dresden.
The cinema block opens up to the street thus allowing pedestrian traffic to connect from Pragerstraße to St. Petersburger Straße, thereby transforming the cinema into a public space. In short, it is an inside-out building, bringing the city inside, and opening the interior up the outside world.



## Cement

Aveng's cement interests reside in its 46%-held associate company Holcim (South Africa) (Pty) Limited. In line with common practice in the global cement industry, Holcim Limited Switzerland, the 54% controlling shareholder, recently embarked on a global branding exercise, requiring that all subsidiary companies adopt the Holcim brand. Accordingly, Alpha changed its name to Holcim (South Africa) in February this year. The payoffs for the local company include reduced marketing costs, first world procurement advantages and, over time, a powerful international brand.

Holcim (South Africa) is the country's second largest cement manufacturer with two factories in South Africa and one in Tanzania. It is the country's largest supplier of crushed aggregate and ready-mixed concrete.

The past year has been outstanding for the country's cement industry. Volumes in the first half of the Aveng financial year grew by 6,6% compared to the comparable prior period. The second six months (January to June 2004) witnessed a 17,3% volume growth. This takes the regional cement consumption for the twelve months ending June 2004 to 11 million tons, the highest demand to date. With approximately 60% to 70% of the current cement demand being consumer driven, this extraordinary growth is clearly being driven by the low interest rates. Demand is likely to level off soon, largely as a result of growing shortages in complementary building materials.

The crushed aggregates and ready-mixed concrete businesses have similarly benefited from the current high levels of residential construction. Tanga Cement performed well, measured in Tanzanian shillings, but returned a flat year-on-year rand denominated result.

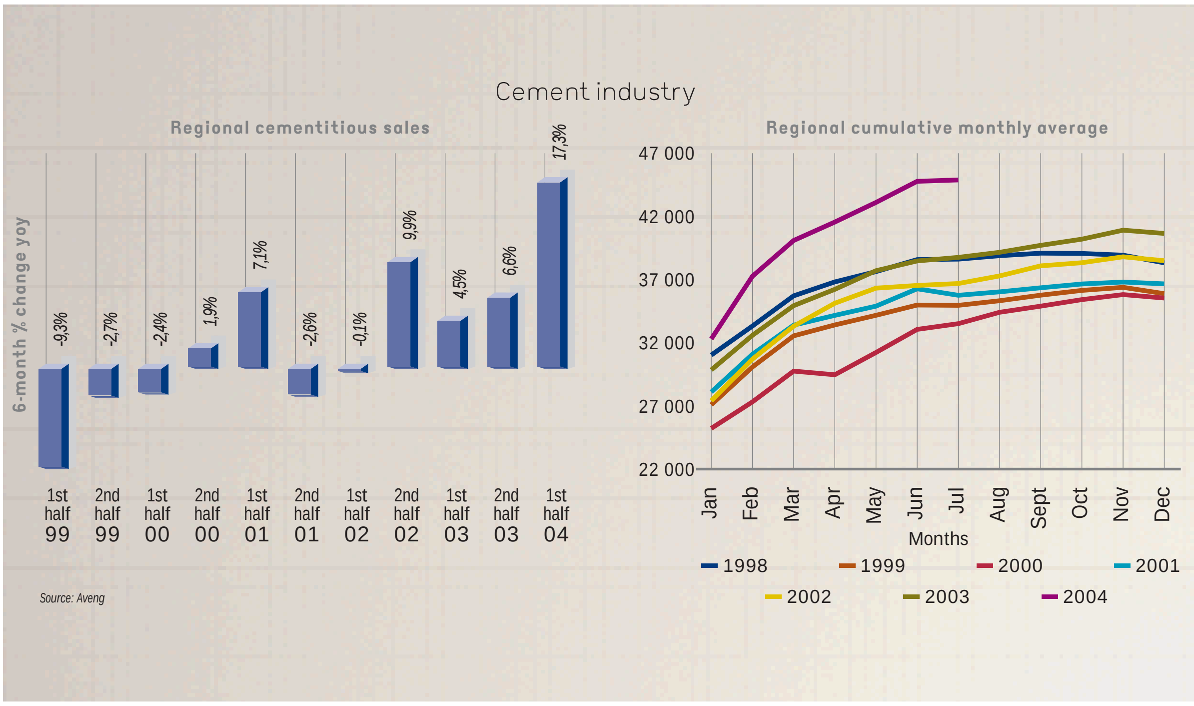
During the year Holcim (South Africa) successfully commissioned the R340 million project to improve the capacity and thermal efficiency of the Dudfield No. 3 kiln and to reduce emission levels to current world-class standards. The 400 000 tons per annum of additional clinker capacity is proving to be particularly well timed, given current market demand.

The board is reviewing proposed capital expenditure to reduce stack emission levels on the Dudfield No. 2 kiln which will allow Holcim (South Africa) to extend the life of this kiln.

Using an average clinker extension factor, the company's current cement capacity is 4,1 mtpa. Given its market share, and probable cement demand over the next few years, Holcim (South Africa) does not seem to have any immediate capacity concerns. The board has however requested management to urgently proceed with detailed capacity planning for consideration towards the middle of next year.

Following the sale of Omnia and NPC in the prior period, the strategic realignment of Holcim (South Africa) continues. The company's 25% interest in Ash Resources was disposed of in January 2004 and proposals on the 33% interest in Slagment (Pty) Limited have been made to the competition authorities and we await their ruling on the matter.

Holcim's (South Africa) operational difficulties with Spoornet, outlined in last year's annual report are still of concern, although we are beginning to see signs of improvement. Added to that concern is the 40% tariff increase scheduled for early next year. With transport being the single largest cost item, the bottomline implications for the business are going to be significant.



"We are particularly proud of the fact that over 70% of the fruits of the group's BEE transaction will accrue to broadly-based previously disadvantaged groups"

## Strategy

Aveng's vision "to become a globally competitive construction-related group focused principally on the developing world" remains intact.

Looking back, stage one of the journey since the time of our listing five years ago was largely about the **strategic realignment** of the group. The multi-listed and unfocused fixed investment conglomerate of a few years ago has been systematically aligned with our vision. Companies were bought and sold and four groups delisted as we sought to organise Aveng around the three strategic clusters of Construction, Steel & Cement. The acquisition and delisting of LTA was a bold move and a giant step forward in the realisation of Aveng's vision. While the long-term strategic advantages are undeniable, the short-term cost has been significant – exacerbated by the untimely strengthening of the rand.

Looking forward, stage two of Aveng's strategic programme will focus on **building shareholder value** as defined in the group's corporate objectives:

- Long-term headline earnings per share growth of CPIX + 10%
- Long-term return on shareholder equity of CPIX + 10%
- Debt-to-equity ratio of 35% in the longer term
- Hard currency revenues of 50% in the longer term

Over the next few years management will concentrate on consolidating existing operations, improving efficiency and paying down debt.

Aveng's proposed BEE transition will ensure that group companies are given the opportunity to benefit from their fair share of local construction work in the years ahead. The transaction with the Tiso-led BEE consortium is more than just a shareholding deal. There will be an active involvement on two of the subsidiary boards and a different dynamic will undoubtedly develop in our relationship with the market and community at large. All parties involved intend to seek ways to leverage this transaction for the benefit of all stakeholders.

From an operational perspective, group companies will continue with their ongoing quest to balance risk at every level in the company. The dynamics associated with Aveng's strategy of balancing risk are dealt with elsewhere in this report.

## Prospects

The most significant exogenous variables in Aveng's performance are the rand/US dollar exchange rate, government expenditure on infrastructure and to a lesser extent, interest rates.

The rand/US dollar exchange rate has a direct impact on one third of group earnings and an indirect impact, through its South African customers, on a second third of earnings. We have structured our businesses to be able to successfully win work internationally at R7/US dollar and believe that most of our local customers will be able to do the same. At R7/US dollar longer-term prospects for two thirds of Aveng's earnings base look reasonable.

The final third of our earnings base comes from government infrastructure investment. Here we are particularly well placed to benefit from what would seem to be a renewed commitment to infrastructure expenditure. Grinaker-LTA is a member of one of the two consortia bidding for the Gautrain project. It is also well positioned to contribute towards the building of stadia and the other infrastructure required for the 2010 Soccer World Cup.

Interest rates have a very limited effect on our managed businesses. Their impact on construction is minimal, as the group has purposely stayed away from the consumer-driven residential market. The large industrial projects that group companies find themselves more dependent on the exchange rate than on interest rates for their viability. Steel & Allied experience some advantages through the sale of products linked to the residential sector. While consumer demand boosts car sales, our products are more weighted to the motor industry's export programme. Low interest rates and the associated boom in residential building is very beneficial for our cement associate but only up to the point where complementary building products can keep up with demand.

Whilst the markets for the next six months will continue to be tough, the second half of the financial year looking more promising.

## Appreciation

The past year has taken its toll on everyone. I'd like to thank our Construction people for the fortitude they displayed during the unsettling period of restructuring and retrenchment. A hearty thank you to our Steel & Allied people as well as our Cement associate for their outstanding financial contribution to Aveng.

To all our people – a heartfelt thanks for your hard work and loyalty over the past year. While the next year won't be easy, we've turned the corner.

A final word of thanks to our customers for their support – and of course to our suppliers, professional associates and joint venture partners who are all part of the team.

**Carl Grim**
*Chief executive*
10 September 2004

DR Gammie

# Financial director's commentary

Financial director's commentary

*"The past year was tough but we've taken it squarely on the chin. We are now going to build from this base"*

## Introduction

These results have been compiled in accordance with the South African Statements of Generally Accepted Accounting Practice, International Financial Reporting Standards, the Listing Requirements of the JSE Securities Exchange South Africa and Schedule 4 of the South African Companies Act. The accounting policies used are consistent in all material respects with those adopted in the annual financial statements for the year ended 30 June 2003.

The only material event subsequent to the year-end was the announcement of the sale of 25% of Grinaker-LTA Limited and Trident Steel Holdings (Pty) Limited to a TisoGroup-led BEE consortium for R496 million, subject to competition commission's approval and the registration of certain trusts. Under current accounting standards this sale will affect the group's financial statements by the inclusion of a minority interest once value has been created.

The geographical spread of the business means that the group is impacted by currency fluctuations when reporting in South African rand. Management will follow the appropriate accounting guidelines and report accordingly.

The South African rand appreciated significantly against other major operating currencies impacting working capital movements and lost revenue.

The average rand to US dollar exchange rate strengthened by 24% compared to 2003, and the closing rate by 16% at 30 June 2004. The rand also appreciated against the Australian dollar by 13% over the period.

The group successfully acquired the minorities in McConnell Dowell Corporation Limited during this financial period, for a purchase price of R125,5 million, together with a dividend of R7,7 million.

## Dividend

It is Aveng's policy to maintain a dividend cover of approximately 25% of headlines earnings. The board has approved a dividend for the year of 14,0 cents per share. With headline earnings of R220 million the dividend cover ratio is 4 similar to the 2003 cover.

### *Operating performance*

Revenue of R11 740 million for the year declined by 11%, largely as a result of the difficult trading environment experienced in the internationally weighted construction cluster where revenues declined by 23%. In spite of a 10% reduction in group overhead costs, operating income dropped by 67%, giving an operating margin of 2% or R225 million.

Operating income was negatively impacted by R96 million as a result of foreign exchange losses.

Income from associates and joint ventures, which is net of tax, increased from R155 million to R184 million, as a result increased earnings from Holcim (South Africa) – in spite of some joint venture losses registered in construction.

This increased level of contribution from associates together with the 13% reduction in interest payments and a negative tax charge, enabled the group to meet its commitments to the market delivering a 52% decline in headline earnings and in headline earnings per share.

### *Earnings per share*

Headline earnings of R220 million translated into headline earnings per share of 57 cents, 52% down on the previous year. Earnings per share decreased by 67% to 50 cents. The comparatively large decrease in earnings per share resulted principally from the substantial surplus on the sale of investments held in Natal Portland Cement and Omnia in the prior period.

There is no difference between the weighted average and the diluted weighted average number of shares in issue, because the group effectively expenses all Aveng share options that have been issued. The potential cost to the group is calculated to be the current share price less the issue price of all outstanding Aveng share options issued to members of staff and is expensed through the income statement at June 2004, irrespective of whether the options in question have vested or not.

### *Interest*

Net interest paid of R214 million reflects a decrease of R48 million over the prior period, resulting in part from the reduced interest rate environment. The group had fixed long-term borrowings of R732 million at June 2003, reducing to R386 million at June 2004. Because the interest rates on the "fixed" borrowings exceeded the short-term interest rates, the group did not benefit from the reduced interest rates.

As a result of losses in the Grinaker-LTA Roads & Earthworks business unit, together with reduced earnings when translating dollar earnings into rands, the interest cover ratio has been negatively affected by the reduction in operating income.

### *Shareholders' funds*

Total ordinary shareholders' funds decreased by 11% as a result of a negative foreign currency translation of R358 million. This compared to a negative movement of R169 million in the prior year, reflecting the strength of the rand to both US dollar and Australian dollar.

The reduction in minority interests was due to the acquisition of the balance of McConnell Dowell Corporation.

### *Net borrowings*

Total interest-bearing borrowings include funds raised by the commercial paper programme. Gross interest-bearing debt of R2 049 million was R61 million more than the R1 988 million reported last year. Net interest-bearing borrowings of R1 303 million were marginally down on last year's R1 315 million, despite the losses incurred by the construction cluster.

South African sourced gross interest-bearing debt at year-end amounted to 99% of total gross debt and cash resources held in South Africa represented 34% of the total cash balances. For more details see note 11 to the annual financial statements.

The group's reduced expansionary capital expenditure of R245 million (2003: R404 million) together with replacement capital expenditure of R169 million (2003: R424 million) helped improve the net debt position. Replacement capital expenditure was R224 million less than depreciation, made possible by the decision to downsize the group's capital intensive roads and earthworks business unit. Total capital expenditure of R413 million is less than 50% of last year and should be reduced further by the proceeds on the disposal of fixed assets amounting to R115 million, giving a net cash cost of R298 million.

The reduction in capital expenditure took place largely in Construction with Steel & Allied capital expenditure being only slightly down on last year. The capex ratio between these two strategic clusters is now 62% to 38% compared to 80% to 20% in favour of construction last year.

Working capital was positively impacted by the 20% reduction in trade and other receivables, freeing up R626 million of cash. Trade and other payables and inventories declined by 12% and 9% respectively – roughly in line with the group's decline in revenue.

While the net debt was marginally down on last year, the decline in shareholders' funds resulted in the net debt-to-equity ratio deteriorating to 52% compared to 44% last year. Without the negative foreign currency translation effect the net debt to equity ratio would have been 45% for this period.

### *Goodwill*

The goodwill figure arises principally from the purchase of LTA Limited and McConnell Dowell Corporation Limited with other amounts in respect of much smaller investments which are not significant. The R241 million reduction in goodwill compared to last year is largely the result of net foreign exchange movement of R150 million.

### *Cash flow*

Net cash generated from operations, being the cash generated by operating activities less income from investments, increased by R80 million to R762 million. Working capital was reduced by R337 million before exchange translations of R194 million.

Cash flow earnings per share of R2,08 improved by 12% compared to R1,86 achieved to June 2003, based on the same number of shares in issue.

### *Claims*

The outstanding claims in Grinaker-LTA and McConnell Dowell will be pursued with aggression.

### *Dispute*

Efforts to resolve the dispute on "rise and fall' adjustments with Aquarius Platinum Limited on the Marikana opencast project, through negotiation and mediation, have been unsuccessful.

The parties have agreed to settle the matter through arbitration early in February 2005.

### *Future priorities*

The primary area of focus for the next three years will be to sweat the assets, generate cash, and repay debt.

**Dennis Gammie**
*Financial director*
10 September 2004

# Risk

Management of risk is an inherent part of doing business. It is the responsibility of the board to set out the risk parameters defining the nature and quantum of the risks the group is prepared to take. Thereafter, it is the responsibility of management to ensure that the business operates within these parameters.

Risks can be categorised as those within the control of the organisation and those imposed by outside forces. Aveng attempts to mitigate the second category of risk by maintaining a strategic balance between markets, currencies, countries, products and the cash flow characteristics of its businesses.

In considering those risks within the control of the organisation, major categories of risk are identified and the group's exposure to each of those risk elements is analysed. The probability of occurrence and the extent of the possible impact is assessed. Appropriate measures to mitigate or, at the very least, control major risks are then put in place. Each category of risk is monitored and actions continuously reviewed and adjusted for maximum impact. There is a regular process of reporting to the board through the audit and risk committee. This process also reviews any new trends in risk management and analyses internal breakdowns that may occur.

In the review of tender risk, the control process starts at the business unit level with a clearly defined approval process. Depending on the size or complexity of a particular contract, the risk review will move to a higher level and finally to the Aveng board, where a tender risk committee consisting of three executive and three non-executive directors will review the risk aspects of large tenders.

The major risks facing the group are detailed below. Some are common to overall group activities while others are specific to one or more sectors of the business. They are not listed in order of importance.

### *Economic cycle*

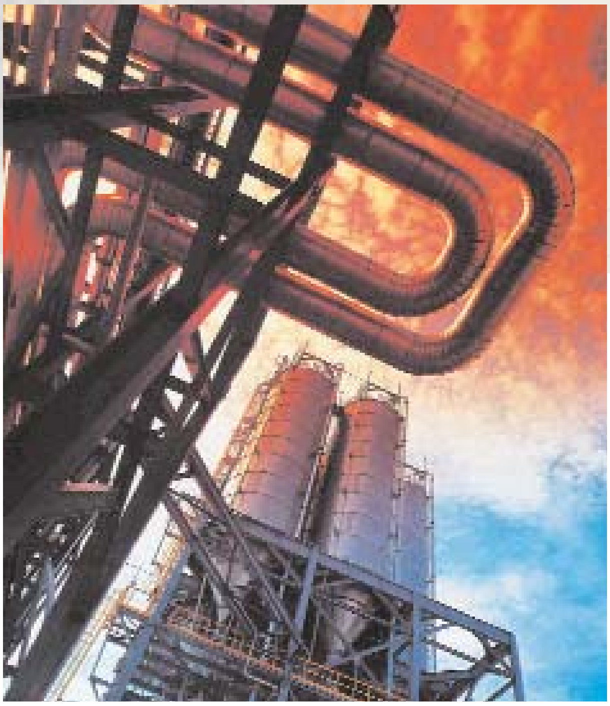
The group is largely dependent on the southern African fixed investment cycle. In the construction sector the size of the contracts tend to delay the effect of the cycle by nine to 12 months. The geographical diversity of Aveng's construction-related interests serves to reduce the impact.

### *Exchange rate*

The construction cluster generates a significant portion of its revenue outside of South Africa, making it vulnerable to exchange rate movements in a number of ways. The first impact comes from the translation of foreign earnings into rands. The second impact arises when plant and equipment purchased at one exchange rate has to generate income at a different exchange rate. Finally, exchange differences arise where contract costs in various currencies cannot be matched with revenue streams in the same currencies and in similar time frames.

### *Commodity price*

Although the group is not directly affected by commodity price movements, a significant portion of



our customer base is directly involved in the resources sector. For our South African customers, the rand price of the commodity dictates their investment decisions. A strong rand has resulted in cancelled contracts and mothballed projects by our key mining customers. This is an important secondary impact of exchange rate movements on Aveng's earnings.

### *Human assets*

Aveng is a people intensive business and, as such, human capital is essential for its long-term success. The group upholds the principle of employment equity and invests substantial amounts in training and education. High levels of emigration and the permanent migration of skills from our industry because of its high cyclicality has resulted in a shortage of suitably experienced senior personnel. A relatively inflexible labour market with globally unacceptable low productivity and the HIV/Aids pandemic create additional areas of risk. More detail is given in the human relations section of this report.

### *Construction market forces*

Risk in the construction industry has always been present and has generally been well managed. During the past decade, largely driven by changing customer demand, the industry has shifted towards the taking on of an ever-increasing level of risk. The number of fixed price type contracts (BOT, BOOT, etc), as well as the increasingly complex and onerous contractual conditions imposed by customers, has had the effect of shifting substantial risk to the contractor. Much of this risk has not been well understood by the industry and therefore not adequately taken into account in their pricing of contract work. With a great deal of the risk unquantifiable and out of the control of the contractor, the industry has been taking on "customer risk for contractor returns". This worldwide phenomenon is being addressed at many levels with some positive signs emerging.

# Board charter – summary

The board of Aveng Limited has adopted a board charter setting out the role of the directors and their responsibilities to the company and its shareholders. Newly appointed directors subscribe to the provisions of the charter and commit themselves to act accordingly.

## *Role of the board*

The charter confirms that the role of the board is to effectively represent and promote the interests of the company (and thereby its stakeholders) with a view to adding sustainable value to the company. The board fulfils this role by ensuring that company goals are clearly defined, that management has put strategies in place to achieve them and that appropriate steps are taken to monitor progress. Furthermore, the board is involved in formulating policy, appointing and monitoring the performance of the chief executive, overseeing board succession planning as well as assisting in the selection, appointment and remuneration of senior group executives.

The board's role is also to evaluate developments in the external environment and provide counsel to the chief executive and executive directors. An important element of the board's responsibility is to ensure compliance with all relevant legislation, both in the spirit and the letter of the law, as well as ensuring that the company adheres to the high standards of ethics and corporate behaviour set out in its "Code of Business Conduct" set out on page 11 of this report. Its actions must demonstrate unwavering commitment to the group's core values of personal integrity, quality of work and entrepreneurial conduct.

A further dimension to the role of the board is its relationship with its shareholders. To that end the board undertakes to review the shareholder register on a regular basis and to familiarise itself with issues of concern to shareholders that may be raised from time to time by directors, management or the company's external investor relations consultants.

In order to effectively fulfil its role, the board has adopted a set of procedures that govern and regulate its activities. Some of the more important elements include attendance of and preparation for board meetings, open and constructive discussion and a recognition that genuinely held differences of opinion can bring greater clarity and lead to better decision-making.

Board meetings take place quarterly and, while the final agenda is set by the board, via its chairman, a number of standing issues are covered at each meeting. These include: a business overview from the chief executive, a report from the financial director, operational reports from the company's subsidiary and associate groups, a review of capital expenditure and acquisition proposals as well as major strategic issues and potential opportunities for the company.

In addition to its statutory duties, the board annually reviews the group's goals, its overall strategy for achieving these goals and approves the annual budget and business plan. The board also reviews and evaluates its own performance and that of its standing committees as well as monitoring the performance and remuneration of the executive directors.

To aid them in their tasks, directors have full access to company information and to the chief executive and other executive directors. With the prior agreement of the chairman directors are entitled to obtain independent professional advice relating to the affairs of the company or to his or her other responsibilities as a director. The cost of the advice will be paid for by the company.

The board charter recognises that the chairman is responsible for board integrity and the effectiveness of its governance processes. He is also tasked with maintaining a regular dialogue with the chief executive on operational matters. The chairman acts as a facilitator at board meetings, ensures that no one director dominates the debate and that discussions result in logical and understandable outcomes.

### *Board sub-committees*

The board has constituted six standing committees to facilitate efficient decision-making and assist the board in its functions. The committees in alphabetical order are the audit and risk committee, the corporate social investment committee, the executive committee, the nomination committee, the remuneration committee, and the tender risk evaluation committee. The membership of these committees can be seen in the corporate governance section of this annual report starting on page 53.

Other ad hoc committees may be formed for specific purposes, and are disbanded when their task has been accomplished.

The audit and risk committee provides a forum for effective communication between the board and the external and internal auditors. The committee reviews the annual and half-yearly financial statements prior to submitting them to the board for approval, the management information systems and procedures for internal control, the risk management processes, the significant risks facing the company, and the effectiveness of the external and internal audit functions.

The corporate social investment committee consists of the chief executive and between two and three non-executive directors, with the chairman being a non-executive director. The committee sets group policy, approves the budget for submission to the board and monitors the allocation of funds. It reports to the board twice annually.

The executive committee comprises the executive directors under the chairmanship of the chief executive. Matters of strategic importance are discussed and decisions made that affect the group as a whole. Particular emphasis is given to implementing board decisions.

The nomination committee ensures that the board consists of directors with the appropriate balance of skills, experience and other attributes required by the company. It considers the need for new directors, searches for candidates and recommends potential appointees to the board.

The remuneration committee annually reviews the fees paid to non-executive directors and makes recommendations to the board. Salary packages for executive directors including base salary, fringe benefits, share schemes, performance-related bonuses and entitlements upon retirement and termination, are reviewed annually with due regard for performance and other relevant factors including market relativity. The committee notes the details of remuneration packages of senior executives and approves policy for operating company remuneration.

The tender risk evaluation committee reviews the risk aspects of tenders that either as a result of the absolute size or their complexity may present significant potential risks to the group. The committee consists of three executive and three non-executive directors, meeting under the chairmanship of the group chief executive.

### Board procedures

The board strives to achieve the balance of skills and experience necessary to guide the company and its subsidiaries, to present a public face that engenders confidence in the company amongst present and potential investors, and to reflect the racial diversity of its stakeholders. The board therefore needs to be large enough to provide the necessary range of knowledge, views and experience, without jeopardising its ability to achieve common purpose, full participation and camaraderie. Generally, the number of directors is between ten and fifteen, the majority of which are non-executive with the majority of these being independent.

Subject to any limitations imposed by shareholders, non-executive directors hold office for between three and ten years. Executive members retire from the board at age 60 and non-executive members at the age of 65.

Non-executive directors undergo an induction programme aimed at deepening their understanding of the company, the business, the environment and the markets in which the company and its subsidiaries operate. Directors are expected to keep themselves informed of changes in the business, trends in the company's operating environment and to be aware of the broader economic, political, social and legal issues that may impact on the group.

Each year the board critically evaluates its own performance, together with its processes and procedures to ensure that they are not unduly complex and that they continue to assist the board in fulfilling its role effectively.

### The chief executive

A further important element of the board's responsibility is its relationship with the chief executive. The chief executive is the link between the company's management and the governance functions and the board. All board authority conferred on management is delegated through the chief executive so that the authority and accountability of management is considered to be the authority and accountability of the chief executive.

With this as its premise, the board works with the chief executive to set company goals and the chief executive is accountable to the board for the achievement of these goals without exceeding the limits of authority delegated to him. The chief executive is expected to enforce the group's code of business conduct and at all times to act in the best interests of the company and its shareholders, upholding the highest standards of corporate governance and fairness in the groups dealings with all its stakeholders.

# Corporate governance

Aveng and its people regard corporate governance as central to its success. The group is committed to maintaining high standards of governance, to ensure that the group is being managed ethically, within prudently determined risk parameters. The group accepts the underlying philosophy and the firm recommendations expressed in the King Report on Corporate Governance for South Africa – 2002 (King II) published during March 2002 and complies with the additional requirements for corporate governance set out by the JSE Securities Exchange South Africa.

Aveng implements good governance in a practical way and will not allow form to replace substance.

Aveng has always believed that high standards of corporate governance are fundamental to achieving its long-term strategic goals and to meeting the needs of all stakeholders.

This commitment is demonstrated by the ongoing fine tuning of structures to reflect current best practice in corporate governance. Where Aveng holds a contrary view to those expressed in the King II recommendations, the reasons have been noted.

## *Board of directors*

The board is the focal point of Aveng's corporate governance. It determines the purpose, values and strategic direction of the group. It sets strategic objectives, key policies, risk parameters and financial performance criteria. It exercises leadership, enterprise and sound judgement in its quest for continued prosperity for all stakeholders.

The board delegates the detailed planning and implementation of policy to management, formally reviewing progress on a quarterly basis.

The protection of shareholders' rights and responsibility to other stakeholders within the constraints of the regulatory environment is of paramount importance in all board decisions.

Aveng has a unitary board structure comprising fifteen directors, eight being independent non-executive, two non-executive and five executive directors. Their details appear on pages 22 to 25 and their attendance at meetings is listed at the end of this section.

Non-executive directors are required to limit the number of outside directorships to four and executive directors to one, excluding directorships of philanthropic and industry related associations.

Because of their calibre, independence, experience and number the views of non-executive directors carry significant weight in the board's deliberations and resolutions. Non-executive directors are not awarded share options or other benefits other than directors' fees.

The independent non-executive chairman of the group has no executive functions. The strong independent composition of the board ensures that no one individual has unfettered powers of decision and authority. There are no shadow directors.

There are no service contracts with either executive or non-executive directors. An executive director is required to retire from the board at age 60, and non-executive directors at the age of 65. There is one independent non-executive director who falls outside these parameters; this exception will be rectified within the next three months.

In accordance with the company's articles of association, all directors are subject to retirement by rotation and re-election by the shareholders at least once every three years. Reappointment of non-executive directors is not automatic. The board approves the appointment of new directors, based on recommendations of the nominations committee.

New directors are inducted by the chairman, chief executive and the company secretary. The chairman deals with the workings of the board, the chief executive with the strategic issues in the business and its future plan, and the company secretary with legal and governance issues.

The board meets formally at least once a quarter, or more frequently if necessary, to consider and review matters specifically reserved for its decision. These include financial and operational results, issues of strategic direction, major acquisitions and disposals, approval of major capital expenditure, large construction tenders as well as any other matters of a material nature.

The timely dissemination of detailed meeting papers which include financial, safety, health, environmental, operational, risk matters and other supporting documentation ensures that the directors are fully informed on matters scheduled for discussion and decision at each board meeting. Directors may request the company secretary to place a matter on the board agenda.

Directors have unrestricted access to all company information, records, documents and property.

An annual assessment of the performance, attendance, preparedness, participation and candour, of the board as a whole and of individual non-executive directors, is conducted by the chairman for review by the nomination committee. The performance of the chief executive is reviewed by the chairman in consultation with the remuneration committee. The performance of other executive directors is assessed by the chief executive in consultation with the remuneration committee.

Board committees have been established, to assist the board in its deliberations. The following committees report to the board and are reported on individually in this section of the annual report:

Audit and risk committee
Corporate social investment committee
Executive committee
Nomination committee
Remuneration committee
Tender risk evaluation committee

Each of these committees has its own mandate and other than the corporate social investment committee, the tender and risk evaluation committee and the executive committee, are made up exclusively of non-executive directors, the majority of whom are independent. The chairman of each of these committees reports verbally to the board and minutes of the committee meetings are circulated to directors. These committees in no way diminish the responsibility of the board.

The performance of each board committee is formally assessed by members of the board annually in November, with committee members for the next twelve months being elected at the group's December board meeting. Continuity and new thinking on these committees is ensured by this process.

| | | | Board meetings | | | | Board ad hoc | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Independent | Fri, 11 July 2003 | Fri, 12 September 2003 | Fri, 12 September 2003 | Fri, 5 December 2003 | Tues, 13 January 2004 | Fri, 30 January 2004 | Tues, 17 February 2004 |
| RB Savage | Non-executive chairman | ✓ | ☺ | ☺ | ☺ | ☺ | ☺ | ☹ | ☺ |
| PL Erasmus | Non-executive deputy chairman | ✓ | ☺ | ☺ | ☺ | ☺ | ☹ | ☺ | ☺ |
| C Grim | Chief executive | | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| CV Campbell | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ | ☹ | ☺ | ☺ |
| PF Crowley | Executive | | ☺ | ☺ | ☺ | ☺ | ☹ | ☺ | ☺ |
| BPJ Fourie | Executive | | ☺ | ☺ | ☺ | ☺ | ☹ | ☺ | ☹ |
| DR Gammie | Executive | | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| L Gcabashe Ms | Non-executive | ✓ | n/a | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| JR Hersov | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| HDK Jones | Executive | | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| KW Meissner-Roloff | Non-executive | | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| VZ Mntambo | Non-executive | ✓ | ☺ | ☺ | ☺ | ☹ | ☹ | ☺ | ☹ |
| AR Mpungwe | Non-executive | ✓ | ☺ | ☹ | ☺ | ☹ | ☹ | ☹ | ☹ |
| BP Steele | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| M Taback | Non-executive | | ☹ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| W Wassermeier | Executive – Retired | | ☺ | ☺ | n/a | n/a | n/a | n/a | n/a |

☺ = *present*
☹ = *absent*
*n/a = not applicable*

"The roles of the chairman and chief executive are separate. The chairman and the majority of the directors are non-executives and independent"

### *Chairman and chief executive*

The roles of chairman and chief executive are separate. The board is led by the chairman, Richard Savage, who is an independent non-executive director. He is assisted as required by the deputy chairman Phil Erasmus who is also an independent non-executive director. The executive management of the group is the responsibility of the chief executive, Carl Grim.

The chairman and deputy chairman are re-elected annually in June for a period of one year.

The chairman serves as a non-executive director on the group's principal subsidiaries' company boards. Aveng believes that this level of involvement is necessary to acquire and maintain the level of understanding of group operations required to effectively chair the board. This greater involvement is information gathering in nature and does not in any way constitute the exercise of executive powers.

### *Company secretary*

All directors have access to the advice and services of the company secretary, and with the prior agreement of the chairman are entitled to obtain independent legal advice on group related matters at the group's expense.

The company secretary also keeps the board advised of any relevant changes in the JSE Securities Exchange South Africa Listings Requirements, governance issues, changes in company law legislation and any other relevant regulations.

### *Audit and risk committee*

Members: Colin Campbell (chairman), Richard Savage, Brian Steele.

The committee's primary responsibility is to provide the board with additional assurance regarding the integrity and effectiveness of the risk management framework and related internal controls, the reporting and compliance systems that are applied within the group and the operational implementation of corporate governance.

The committee reviews internal and external audit processes, accounting policies and significant issues raised in the audit committees of the principal subsidiaries and the group. The internal audit plan is reviewed and approved by this committee.

The Audit and Risk Committee Charter has been approved by the board and clearly sets out the terms of reference and powers delegated to this committee. This includes reviewing the annual financial statements, the internal control procedures, accounting policies, and compliance and regulatory matters as well as advising the board on issues relating to the application of accounting standards into published financial information.

Minutes of the four meetings per annum held by this committee, form part of the quarterly board papers.

Recommendations are made by the committee to the board in respect of the appointment of the external auditor and the appointment of advisors for non-audit services, taking into account appropriate independence issues.

Business risk areas have been formally identified and controls introduced to reduce the potential of loss to the group. The committee members have access to all information, documentation and management explanations required in the discharge of their duties.

During the past year the committee was chaired by Colin Campbell, an independent non-executive director. Colin attends subsidiary audit committee meetings as a member so as to better familiarise himself with the operational details of the businesses. He also has direct access to both the internal and external auditors.

All members of this committee are considered to be independent non-executive directors. Contrary to the King II recommendations, the chairman of the board is a member of this committee as Aveng is of the opinion that the individual concerned is a valuable member of the committee and does not have an overbearing influence on committee members, all of whom are financially literate and very experienced in their fields.

The chief executive, the financial director and the external auditors are in attendance at each meeting. Other members of staff including internal audit staff will attend as required. Executive attendees are not present during periodic discussions with the external auditors on executive openness and cooperation.

| | | | Audit and risk committee | | | |
|---|---|---|---|---|---|---|
| | | Independent | Thurs, 10 July 2003 | Thurs, 11 September 2003 | Thurs, 4 December 2003 | Thurs, 4 March 2004 |
| CV Campbell | Chairman | ✓ | ☺ | ☺ | ☺ | ☺ |
| RB Savage | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ |
| BP Steele | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ |

☺ = *present*
☹ = *absent*
*n/a* = *not applicable*

## *Internal audit*

The directors are responsible for the group's system of internal control and for reviewing its effectiveness. This system of control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The internal audit and risk review structure is decentralised and in certain operations it is outsourced. The independent appraisal function constantly examines and evaluates the appropriateness of the systems of internal control, risk management and governance.

The internal audit departments report directly to the financial director of the subsidiary company on day-to-day matters, but do have direct access to the subsidiary company managing director as well as the chairman of the audit and risk committee. The managing director of the operation concerned is immediately notified of any significant findings. The head of internal audit attends the audit and risk committee meetings and presents the report. Subsidiary internal audit reports are included in the Aveng audit committee papers.

An important objective of internal audit is to assist management in the effective discharge of their responsibilities and the committee acts as a consulting resource designed to add value and improve the organisation's operations. Audit plans are presented in advance to the audit and risk committee and are based on an assessment of risk areas.

Each assignment is followed by a detailed report to management, including recommendations on which aspects require improvement. Significant findings as defined by the terms of reference are reported to the appropriate audit committee. A formal review of internal controls is carried out at least once a quarter.

## External audit

The external audit provides an independent assessment of systems, risk and financial controls. The external auditors review the internal audit reports on a regular basis and meet formally with the internal audit teams at least twice annually to ensure that their efforts are properly co-ordinated.

The external auditors express their independent opinion on the annual financial statements and perform a high level review of the interim results.

The external auditors attend audit and risk committees of Aveng and its subsidiaries each quarter.

The external auditors are required to demonstrate a high level of ethical commitment and ensure that their professional independence is not impaired.

## Risk

The systematic risk assessment process is the foundation of the group's management philosophy. The process ensures that risks associated with opportunities are identified, evaluated and managed at the appropriate level within the organisation.

At the macro-level the risk management methodology is based on the Turnbull recommendations. Major categories of risk are identified, the group's exposure to each of these elements quantified, and the probability of occurrence and the possible impact assessed. Appropriate measures to mitigate or control major risks are then established.

Each category of risk is monitored and actions continuously adjusted.

There is a process of regular reporting to the board through the audit and risk committee on the status of the risk management and internal control systems, which also covers new risk issues or internal control breakdowns that may occur.

The risk control process starts with the operating unit's executive committee and depending on the size and complexity of the risk involved, progresses up to the business unit, the principal subsidiary and finally to the Aveng board for review. The decision to move the review process to a higher level is based on a clearly defined set of size and complexity criteria. For further details on the company's micro risk management see pages 48.

## Corporate social investment committee

Members: Vincent Mntambo (chairman), James Hersov, Carl Grim.

The committee is chaired by an independent non-executive director. Clear terms of reference and powers have been approved by the board.

The committee is accountable to the board. The primary objective of the committee is to familiarise itself with current corporate social investment practice and norms, assessing annual expenditure and reviewing the budget for submission to the board. It also gives the chief executive guidance in evaluating the merits of relatively large and potentially controversial corporate social investment projects.

This committee meets three times per year or more often as required.

| | | | Corporate social investment committee | |
|---|---|---|---|---|
| | | Independent | Mon, 18 November 2003 | Thurs, 17 June 2004 |
| VZ Mntambo | Chairman | ✓ | ☺ | ☺ |
| JR Hersov | Non-executive | ✓ | ☺ | ☺ |
| C Grim | Executive | | ☺ | ☺ |

☺ = *present*
☹ = *absent*
*n/a = not applicable*

## *Executive committee*

Members: Carl Grim (chairman), Frank Crowley, Ben Fourie, Dennis Gammie, Howard Jones.

The executive committee is appointed by the board. Its purpose is to review group operations, discuss and make proposals to the board on matters of strategic importance, and to implement board decisions.

The committee will meet monthly or more often if circumstances demand.

| | | | Executive committee | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Independent | Wed, 5 November 2003 | Wed, 3 December 2003 | Wed, 28 January 2004 | Wed, 3 March 2004 | Fri, 30 April 2004 | Thurs, 27 May 2004 | Thurs, 17 June 2004 | Wed, 30 June 2004 |
| C Grim | Chairman | | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| PF Crowley | Executive | | ☺ | ☺ | ☺ | ☺ | ☹ | ☺ | ☺ | ☺ |
| BPJ Fourie | Executive | | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| DR Gammie | Executive | | ☺ | ☺ | ☺ | ☺ | ☺ | ☹ | ☺ | ☺ |
| HDK Jones | Executive | | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ | ☺ |
| W Wassermeier | Executive – Retired | | ☺ | ☹ | n/a | n/a | n/a | n/a | n/a | n/a |

☺ = *present*
☹ = *absent*
*n/a = not applicable*

### Nomination committee

Members: Phil Erasmus (chairman), James Hersov, Vincent Mntambo, Richard Savage.

The nomination committee is chaired by the deputy chairman of the board, an independent non-executive director. The committee consists of four members, all being independent non-executive directors.

The King II report recommends that the chairman of the board should chair this committee. It is Aveng's view that a candid discussion on board decisions and processes would probably be more effective where this committee is chaired by another director.

Terms of reference and the powers delegated to this committee have been approved by the board and include the important responsibility of reviewing the effectiveness of the board, and that of individual non-executive directors.

The committee considers the composition of board committees, retirements and appointment of additional and replacement directors and makes appropriate recommendations to the board. Potential non-executive directors are selected on the basis of industry knowledge, professional skills and experience. Executive directors are considered for appointment on the basis of the executive positions they hold in the group.

The board chairman conducts annual appraisals of the performance of each of the non-executive directors and reviews these with the nominations committee. Members of the committee recuse themselves when they are being discussed. The nominations committee reviews the performance of the chairman of the board and in doing so reserves the right to consult with the chief executive. Thereafter where appropriate, individual directors may be interviewed. The results of the review process are reported to the board.

The committee meets at least twice a year or more often as required.

| | | | Nomination committee | |
|---|---|---|---|---|
| | | Independent | Thurs, 10 July 2003 | Fri, 5 December 2003 |
| PL Erasmus | Chairman | ✓ | ☺ | ☺ |
| JR Hersov | Non-executive | ✓ | ☺ | ☺ |
| VZ Mntambo | Non-executive | ✓ | ☺ | ☺ |
| RB Savage | Non-executive | ✓ | ☺ | ☺ |

☺ = *present*
☹ = *absent*
*n/a* = *not applicable*

### Remuneration committee

Members: Phil Erasmus (chairman), James Hersov, Vincent Mntambo, Richard Savage.

The committee is chaired by the deputy chairman of the board, an independent and non-executive director. The committee consists of four members, all independent non-executive directors.

Clear terms of reference and powers have been approved by the board.

The committee is responsible for the assessment and approval of the broad remuneration strategy for the group, covering both short and long-term incentive pay structures.

The remuneration committee's objective is to ensure that the right calibre of executive and senior management is attracted, retained, motivated and rewarded appropriately for individual performance and contribution to the success of the group. Reward structures and practices are surveyed annually against external market and country benchmarks.

The performance of Aveng executive directors is reviewed by the chief executive who discusses his assessment with the remuneration committee. The chief executive's performance is reviewed by the chairman of the board in consultation with the remuneration committee. Executive succession planning is discussed by the committee and reported to the board when appropriate.

The committee recommends non-executive compensation to the shareholders and executive remuneration to the board. The remuneration of the directors, both executive and non-executive, for the period under review is set out on pages 117 to 121. Further details on remuneration policy are set out on page 74.

The committee meets at least three times per annum or more often if necessary.

| | | | Remuneration committee | | | |
|---|---|---|---|---|---|---|
| | | Independent | Thurs, 10 July 2003 | Fri, 11 July 2003 | Fri, 12 September 2003 | Fri, 5 December 2003 |
| PL Erasmus | Chairman | ✓ | ☺ | ☺ | ☺ | ☺ |
| JR Hersov | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ |
| VZ Mntambo | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ |
| RB Savage | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ |

☺ = *present*
☹ = *absent*
*n/a = not applicable*

## *Tender risk evaluation committee*

Members: Carl Grim (chairman), Colin Campbell, Frank Crowley, Phil Erasmus, Howard Jones, Richard Savage.

The tender risk evaluation committee reviews the risk aspects of tenders that either as a result of the absolute size or their complexity may present significant potential risks to the group. The committee consists of three executive and three non-executive directors, meeting under the chairmanship of the group's chief executive.

The committee meets at least quarterly or as often as is required.

| | | | Tender risk evaluation committee | | | |
|---|---|---|---|---|---|---|
| | | Independent | Fri, 5 December 2003 | Fri, 30 January 2004 | Fri, 5 March 2004 | Tues, 20 May 2004 |
| C Grim | Chairman | | ☺ | ☺ | ☺ | ☺ |
| CV Campbell | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ |
| PF Crowley | Executive | | ☺ | ☺ | ☺ | ☺ |
| PL Erasmus | Non-executive | ✓ | ☺ | ☺ | ☺ | ☺ |
| HDK Jones | Executive | | ☺ | ☺ | ☺ | ☺ |
| RB Savage | Non-executive | ✓ | ☹ | ☹ | ☺ | ☺ |

☺ = *present*
☹ = *absent*
*n/a = not applicable*

"Organisational and individual integrity is Aveng's core value. The group's Code of Business Conduct is formally committed to annually by the directors of Aveng and its principal subsidiaries"

### *Integrity*

Organisational and individual integrity is Aveng's core value. The group's code of business conduct is set out on page 11 and is formally committed to annually by the directors of all principal subsidiaries. The code of conduct is made known to employees through various means and the internal audit function monitors activities against the "code" in a systematic manner. Behaviour that undermines the letter and spirit of the code is reported and dealt with as soon as it becomes known. Harsh action is taken to ensure that the reputation of the group is upheld.

Aveng considers carefully its dealings with others that do not demonstrate an appropriate level of commitment to organisational integrity.

### *Share dealing by directors and officers*

The group operates "closed periods" prior to the publication of its interim and year-end financial results. The "closed periods" are from 1 January and 1 June until publication of the half and full year results respectively.

During these periods the directors, officers and employees of the group may not deal in the shares or any other instrument pertaining to the shares of the company.

In addition, directors and senior employees cannot trade in shares during a period where there is unpublished price sensitive information. To ensure that this stipulation is effectively implemented, it is a requirement that outside of the "closed periods" no trade in Aveng securities may take place without prior written approval from the chairman, chief executive or other designated person.

Directors and senior employees are required to inform their portfolio or investment managers not to trade in the securities of Aveng unless they have consent in writing from the affected director or senior employee.

Identical rules and restraints apply where shares in Aveng are held by the immediate family of the director or a trust of which the director or his family is a beneficiary.

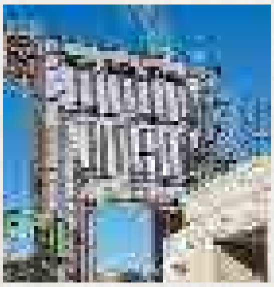
Details of directors' dealings in Aveng shares are disclosed to the JSE Securities Exchange South Africa through the Stock Exchange News Service (SENS) within 24 hours of being advised of the deal.

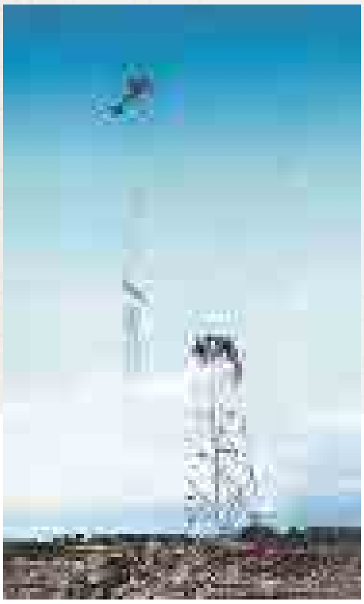
### *Investor and stakeholder relations*

Aveng is committed to open and prompt communication with all its stakeholders. It is committed to transparency only to the extent that such transparency would not be detrimental to the business.

The company communicates as often as practicable with all stakeholders through the numerous mediums available. Direct discussions are encouraged and welcome.

The company goes beyond the minimum required in public announcements, to keep its stakeholders informed of its progress or otherwise but in so doing will ensure that it does not contravene JSE Securities Exchange South Africa regulations on disclosure.





It is the practice of the company to meet regularly with institutional shareholders and investment analysts and to make presentations to both local and international investors biannually after the release of the company's results.

Shareholders and their appointed representatives are encouraged to attend the company's annual general meeting, where relevant discussions could be held with directors.

## *Information found elsewhere in this report*


| | Page |
|---|---|
| Board charter summary | 50 |
| Black economic empowerment | 65 |
| Code of business conduct | 11 |
| Corporate social investment | 70 |
| Directors' remuneration | 117 |
| Environment | 76 |
| Going concern | 85 |
| Health | 75 |
| Human capital | 72 |
| Industrial relations | 74 |
| Market review | 14 |
| Remuneration policy | 74 |
| Responsibility for financial statements | 85 |
| Risk | 48 |
| Safety | 74 |
| Skills development | 73 |
| Quality | 12 |

Jean-Marie Tjibaou Cultural Centre: New Caledonia
Architect: Renzo Piano

Ten huts each measuring 20 to 28 metre in height is set along the ocean shore at the center of a nature reserve.

These buildings serve various functions. There are some permanent exhibitions, and auditorium, an amphitheatre, research areas, library, conference room and the administrative departments. Being built around the theme of culture and social involvement of communities, a series of huts also house studios for cultural activities such as music, dance and sculpture.

# Black economic empowerment

Aveng endorses government led initiatives to promote commercial reconciliation within the South African corporate environment. Aveng sees BEE as a business opportunity, adopting a pragmatic approach to its implementation across the group.

Aveng believes that BEE – be it shareholding, employment equity or enterprise development – needs to add sustainable value for all stakeholders.

The most valuable empowerment takes place at the operating level when it is directly linked to skills transfer and enterprise development. The objectives of black economic empowerment are therefore best served by founding and growing construction and other companies with actively involved black shareholders who are willing to work hard, learn, and have a burning desire to succeed.

The majority of the successful construction companies in South Africa today were started by entrepreneurial engineers who built on experience gained elsewhere to establish and patiently grow their companies. The diversity of our construction group, both geographically and from a product/service perspective, lends itself to forging multiple skills transferring enterprise development partnerships.

The Aveng approach is for an operating entity to establish a company with black shareholders who have the desire to learn and be actively involved. Typically, the Aveng operation holds a controlling share in the early stages and then, over time, reduces this to a minority position, finally exiting as its empowerment partner acquires the necessary skills. It is never the intention to buy out an empowerment partner at a later stage. These empowerment companies cover a wide spectrum of the group's activities in South Africa. There have been many successes but also the inevitable business failures. The accompanying table sets out the relationships that existed at June 2004.

The group not only forges long-term relationships such as those mentioned above, but it also enters into numerous joint ventures with local black contractors on a contract specific basis. During the 2004 financial year the value of these contracts was a very significant R506 million spread between 15 joint venture partners. The accompanying table lists the joint ventures embarked on with BEE partners in the past year.

Having successfully implemented BEE at an operating level over many years, the next logical step in its BEE strategy was to replicate the operating level BEE philosophy at the strategic level. Accordingly, after a seven month search, the board identified TisoGroup as the preferred BEE partner for Aveng and concluded a transaction with this group subsequent to the year-end. With a significant interest in both Grinaker-LTA Limited and Trident Steel Holdings (Pty) Limited, two seats on each board and a director on the Aveng board, TisoGroup will have the opportunity and incentive to contribute both strategically and operationally to the business. Simultaneously, this transaction with TisoGroup will bring in other black business partners working with group operating entities, employees as well as women and community groupings through a number of trusts, thereby making them co-shareholders in the business and incentivising them to do what they can to add to Aveng's success. The members of the BEE consortium are detailed on page 69.

Grinaker-LTA and Trident Steel make up over 80% of Aveng's revenue and therefore comprise the bulk of the Aveng business. McConnell Dowell Corporation was excluded as it is based in Australia and operates in the eastern time zone. Holcim (South Africa) is not a subsidiary of Aveng and has quarrying operations which are subject to different BEE requirements as set out in the mining charter.

Upon consummating this ground breaking corporate level BEE transaction in our industry, operating units will be freed up to focus on critically important enterprise development initiatives.

The accompanying diagram describes Aveng's six leg BEE strategy. Details on skills development are contained in the human capital section of this report. Corporate social investment is dealt with separately.

A number of construction industry associations have appointed a steering committee which has been tasked with drawing up a BEE charter for the industry. The group is represented on this steering committee and a significant amount of work has been done towards the compilation of a charter. While procurement from empowerment companies is part of the procurement process within the group, this can only be focused upon and quantified once a charter has been agreed.

### *Black economic empowerment companies: Enterprise development*

| Company | Nature of business | Aveng's % interest |
|---|---|---|
| Boshard Construction (Pty) Limited | General contractor | 30 |
| Empowa Grinaker-LTA (Pty) Limited | Manufacture and supply of concrete railway sleepers | 50 |
| Ensimbini Reinforcing (Pty) Limited | Cut, bend and supply of reinforcing steel | 20 |
| Fraser & Chalmers Siyakha (Pty) Limited | Mechanical and piping contractors | 75 |
| Grinaker-LTA Vuselela Spares Supply (Pty) Limited | Process spares supply | 49 |
| Jehamo Electrical Contractors (Pty) Limited | Electrical contractors | 56 |
| KZN Reinforcing and Fixing Services (Pty) Limited | Fixing and positioning of reinforcing steel | 33 |
| Lefike Readymix Concrete | Readymix concrete | 50 |
| Lennings DEC Rail Services (Pty) Limited | Construction and maintenance of rail track | 70 |
| Lesedi Tracks (Pty) Limited | Underground rail track construction | 30 |
| Makokwe Grinaker Mining Contracting (Pty) Limited | Underground mining and infrastructure services | 40 |
| Misa Scaffolding (Pty) Limited | Scaffolding hire | 40 |
| Reinforcing and Fixing Services (Pty) Limited | Fixing and positioning of reinforcing steel | 30 |
| Rekaofela Refractory Services (Pty) Limited | Refractory services and maintenance | 70 |
| Sivukile contractors (Pty) Limited | General contractor | 29 |
| Tshipi S.A. (Pty) Limited | Steel merchant | 30 |

## *Some of the black empowerment joint ventures*

| Project | BEE contractor |
|---|---|
| Aspen Pharmacare | Boshard Construction |
| Atlas Interchange | Thamane Building Construction, Yikusasa Building Contractors |
| Durban Harbour Quay | Bafokeng Civils |
| Effingham Interchange and bridges | Sivukile Contractors |
| Glisa Mine | Ilahle Mining and Construction, Lidonga Minerals |
| Moloto Road rehabilitation | Ulusha Projects |
| Mondi Mill expansion | Sesila Civils and Contracting |
| Mondi – various contracts | Sivukile Contractors |
| Mount Fletcher Road rehabilitation | Toba Civils and Plant |
| Rail maintenance-various contracts | Plyzomba, G4 Civils, Bonang, Joe Shibambo |
| UCT Chemical Engineering Building | Boshard Construction |
| Uitenhage Hospital | Boshard Construction |
| Ushaka Island Earthworks | Infra Projects |
| V & A Marina | Boshard Construction |
| Zimbali Coastal Resort | Super Mining and Civils |

**AVENG SIX LEG BEE STRATEGY**

| | |
|---|---|
| **Equity participation**<br>**Enterprise development** | • **19 different BEE companies in past two years. In 15 of these BEE partners hold controlling interest**<br>• **36 JVs with BEE partners in past two years** |
| **Employment equity** | **On schedule as per plan submitted to Department of Labour** |
| **Community investment** | **1% of prior year's headline earnings of Aveng** |
| **Skills development** | • **142 full-time bursaries and 116 apprentices in 2003**<br>• **6 000 employees received some form of training at cost of R25 million** |
| **Procurement** | **Targeted 20% of total procurement spend** |

"Aveng sees BEE as a business opportunity, adopting a programmatic approach to its implementation across the group"

## The shareholders in Qakazana

Members of BEE consortium

### *TisoGroup*

TisoGroup is focused on natural resources and investment banking and led by Fani Titi, Nkululeko Sowazi and David Adomakoh. Tiso is 56% owned by management and staff, 20% held by the Tiso Foundation, a public benefit organisation, and 24% held by Investec Bank Limited. Tiso, in turn, holds 6,8% of Investec Limited, 25,1% of AEL, AECI's South African and African explosives operations, and 52% of Idwala Industrial Holdings, a company manufacturing lime for the steel and mining industries.

### *Tiso Aveng Women's Empowerment Trust*

The Tiso Aveng Women's Empowerment Trust was established to benefit previously disadvantaged broadly-based women's groupings. The initial participants are "South African Women in Construction" (SAWiC) and "Women for Housing," both section 21 non-profit organisations created for the benefit of their members. SAWiC is focused on providing women with access to construction contracts, creating jobs, growing businesses and generally assisting women to compete in an industry historically dominated by men. At present SAWiC has 508 members, of whom 77% are contractors and 16% service providers, with the balance being trades people.

Women for Housing facilitates opportunities for women involved in low-income housing delivery. Its aim is to provide women with the skills and on-going support required to become successful economic participants and decision makers in the low-cost housing market to ensure sustainable and viable housing developments. Women for Housing has a network of 600 women involved across the full range of housing delivery.

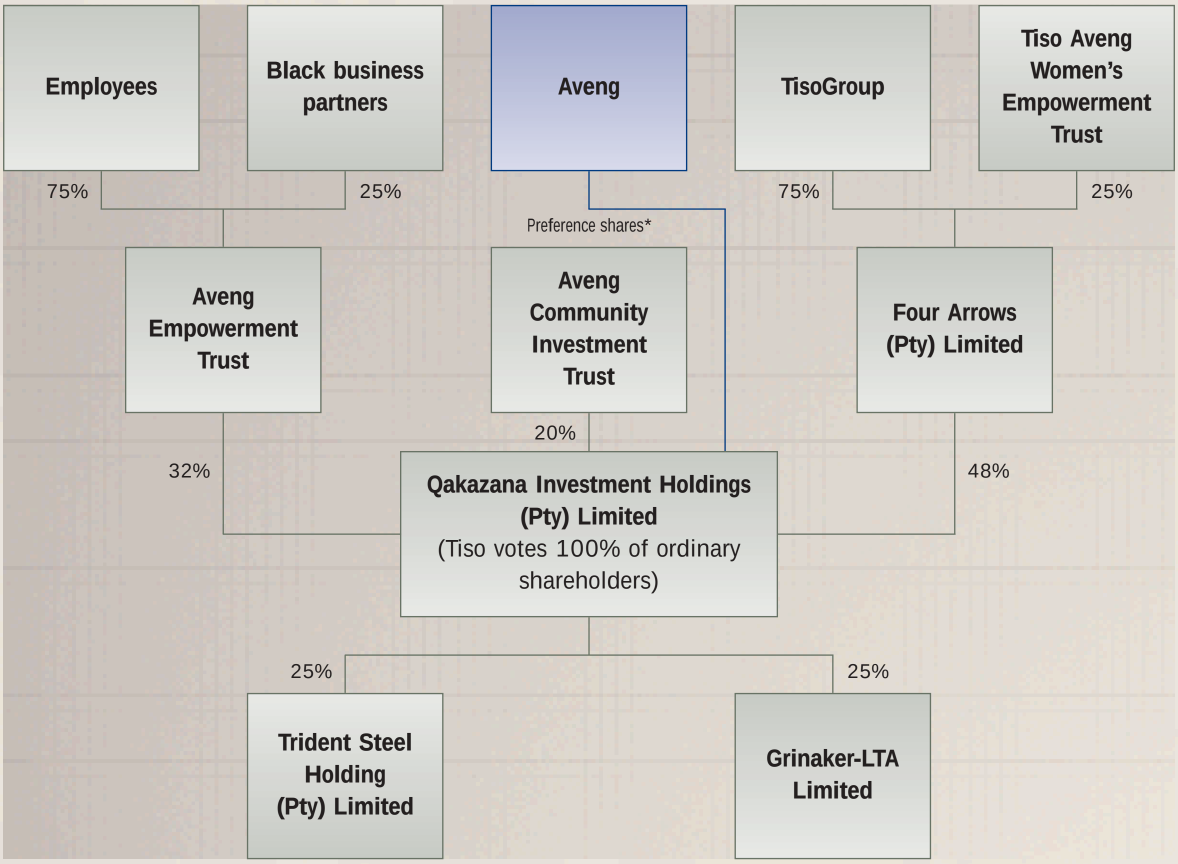
### *Aveng Community Investment Trust*

The Aveng Community Investment Trust, which will be registered as a public benefit organisation, will be overseen by independent trustees. The trust will be mandated to focus principally on technical and business education projects as well as on-job creation initiatives principally for the benefit of black South Africans, within the context of the broader construction industry. As the trust will not generate any funds of its own during the initial period of the structure, Aveng has agreed to provide interest-free loan finance to enable the trust to deliver on its mandate. The loan will be repaid from the proceeds of the sale of its 20% interest in Qakazana at the end of the period.

### *Aveng Empowerment Trust*

In order to ensure that the Grinaker-LTA and Trident Steel permanent employees are brought into the empowerment structure, 75% of the units in the Empowerment Trust have been reserved for employees of these two groups. An initial allocation will be made before the end of 2004 and thereafter the intention is to make further allocations in most years for duration of the scheme. These allocations will be of equal size for all employees – irrespective of seniority. Senior black employees may also be eligible for additional units at the discretion of the trustees.

The Empowerment Trust has set aside the remaining 25% of its units for selected black individuals within joint venture and other business partnerships.




** R496 million with coupon rate of CPIX +8%. At the conclusion of the 7 to 9 year period Aveng will also receive 20% of the value created.*

Corporate social investment

# Corporate social investment

## *Policy*

The future of the Aveng group is linked to the sustainable development of the communities within which it operates and its success relies on a climate of economic and social prosperity.

Aveng recognises that it is not sufficient merely to create employment opportunities, it must also assist in wider social upliftment. To this end the board of Aveng has committed itself to contributing 1% of the prior year's headline earnings to deserving community investment projects.

A corporate social investment committee consisting of two non-executive directors and the chief executive and chaired by a non-executive director was established by the board. The responsibilities of this committee are to:

- familiarise themselves with CSI practice and norms in the South African corporate environment
- set appropriate CSI policy for the group
- review expenditure annually at both the group and principal subsidiary level
- approve the Aveng CSI budget and review the budgets of the principal subsidiaries
- assist the chief executive in evaluating the merits of relatively large or potentially controversial CSI projects
- ensure that appropriate communication accompanies group CSI expenditure

## *Expenditure*

During the 2004 financial year contributions totalling R5,3 million were made by Aveng and group companies to finance a range of CSI projects. Headline earnings at June 2003 were R462 million. CSI expenditure in 2004 exceeded the R4,6 million allocated to the fund by R1,1 million as some projects required up front capital.

In recognition of the excellent work being done by the CIDA city campus in bringing relevant tertiary education to students from disadvantaged backgrounds at very low cost, the Aveng group together with Grinaker-LTA and Holcim (South Africa) has made a commitment to donate R5 million to CIDA over five years. During the past year R1,6 million was contributed for the refurbishment of their 9 West Street building.

As part of its social responsibility programme, Trident Steel is assisting in infrastructural development of the Greater Roodekop area in Germiston where its manufacturing operations are based. A committee comprising the Ekurhuleni Metropolitan Municipality, KPMG and the company ensure that funds are responsibly applied to the benefit of the Roodekop community. During the past year R906 000 was donated to partially fund the construction of a storm water retention facility designed to manage the storm water run-off from the low cost housing development

in Rondebult extensions 2 and 26. Over the next five years a further R4,5 million will be spent on similar projects.

As part of its broader CSI commitments, Holcim (South Africa) donates funds to communities where the company has a meaningful presence. Some of these projects were:

- The Borakanelo Trust for projects in the Delportshoop area near Kimberley.
- The Kutlwanong Home craft development trust which assists projects in skills development such as sewing and home crafts.
- The development of schools in the Dudfield area such as the Dudfield Factory School and the Alpha Star Schools development programme.

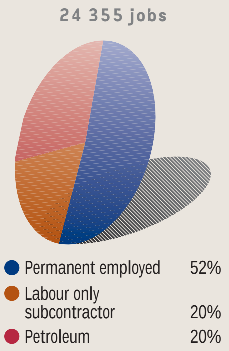
A contribution of R100 000 made to READ in the Kathorus area is one example of a large number of smaller projects and worthy causes that were supported by the group.

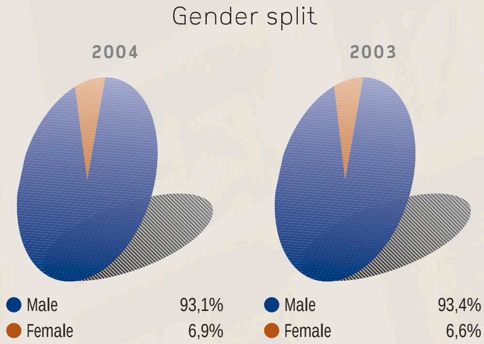
Aveng endorses the objectives of the National Business Initiative, is a supporter of the Business Trust and believes that these initiatives by the business community deserve the support of all South African companies and foreign subsidiaries operating in our country.

### *Future*

Following the successful consummation of the recently announced BEE transaction with the TisoGroup-led consortium, discussed elsewhere in this report, Aveng's CSI endeavours will be managed through the Aveng Community Investment Trust, a public benefit organisation overseen by independent trustees. In terms of its mandate, the trust will focus principally on technical and business education projects as well as job creation initiatives for the benefit of previously disadvantaged communities, mainly within the context of the building and construction industry.

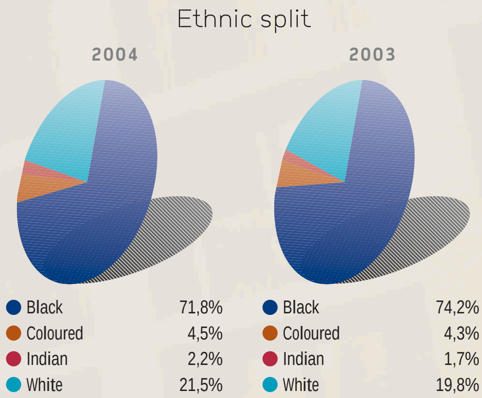
# Human capital




Aveng is a people intensive business, providing 24 355 jobs on 30 June 2004. Of these, 12 748 were to permanent employees, 6 790 to contract employees and 4 817 to labour only subcontractors.

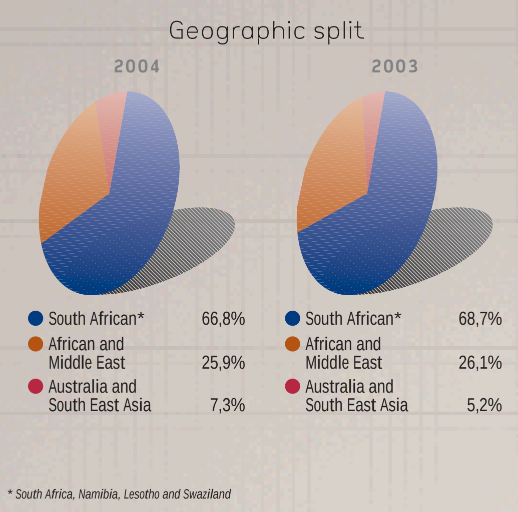
The group is committed to respecting the rights of its employees, offering competitive conditions of service and providing a safe working environment. The skills and experience of Aveng's people are fundamentally important to the longer term sustainability of the group, which is reliant on their commitment, capabilities and hard work.

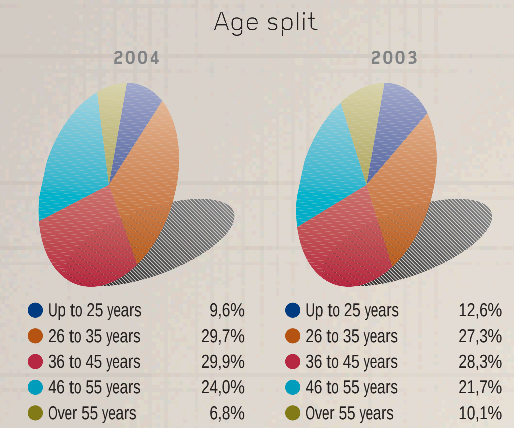



As can be seen from the statistics shown in the accompanying graphs, analysing the permanent and contract employees only, there has not been a substantial change in the demographics of the workforce during the past year. Aveng is committed to moving beyond the levels of employment equity targets and has therefore committed substantial time and resources to the development and promotion of historically disadvantaged staff and minority groups.

against these plans. Current performance in relation to the targets set for October 2005 is as follows:

| | % PDI actual June 2004 | % PDI target October 2005 |
|---|---|---|
| Legislators, senior officials and managers | 17 | 17 |
| Professionals | 32 | 31 |
| Technicians and associate professionals | 59 | 63 |




The shortage of senior managers in the employment market with the necessary technical and engineering experience is making it difficult to exceed the targets in the top band. Nevertheless, every effort is being made with increasing emphasis being placed on training internal candidates who demonstrate potential and ambition.

The employment equity programme for Grinaker-LTA was assessed by the Department of Labour towards the end of 2003 and no major areas of non-adherences to the provisions of the act were identified.

## *Employment equity*

Aveng's code of business conduct commits the group to a policy of employment equity which requires that equal opportunity be offered to all employees. Aveng fully supports the spirit and intent of the Employment Equity Act and has submitted its employment equity plans to the Department of Labour and management regularly reviews operating company performance

## *Skills development*

The group recognises that ongoing investment in people is crucial to the development of human capital for the long-term sustainability of the group. A two-pronged approach is being followed:

- The group provides broad-based employee training, with programmes ranging from health and safety, multiple level skills training, through to management and leadership training and courses covering the spectrum from first level management to senior management. The group assists employees who wish to further their education in fields of study complementary to job requirements.

- A strong focus on formal training has resulted in 89 full-time students studying at tertiary institutions on bursaries awarded by the group this year. A further 154 are enrolled in apprenticeship programmes. The majority of these students are in technical fields of study such as engineering, with 62% of them being from previously disadvantaged backgrounds.

## Remuneration policy

Aveng's remuneration philosophy is to reward and incentivise executives by setting market related salary packages topped up with generous bonuses that recognise excellent performance. Bonuses are set by taking both financial and non-financial factors into consideration with poor performance in both areas resulting in no bonus being paid. Long-term incentivisation for key executives is achieved through the Aveng Share Incentive Scheme where share options are issued at market price and vest over five years.

## Industrial relations

All employees have the right to join a trade union and be represented by it for bargaining purposes. Negotiations and consultations are conducted with registered and representative unions at industry, company and workplace level. Membership of recognised South African trade unions is set out below:

| Union | Membership |
|---|---|
| National Union of Mineworkers | 2 117 |
| National Union of Metalworkers of SA | 1 581 |
| Others | 654 |

## Safety, health, environment and quality

The group has implemented an integrated management system across the majority of its business units that addresses and satisfies the requirements of applicable legislation and international standards namely:

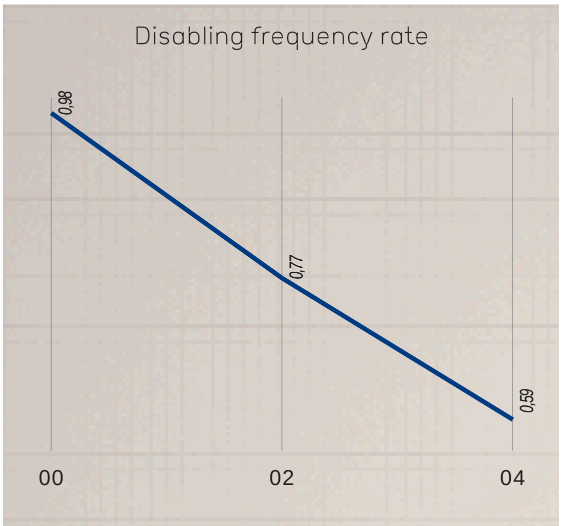
- ISO 9001:2000 Quality management system
- ISO 14001:1996 Environmental management system
- BSI 18001:1999 Occupational health and safety management system
- Occupational Health and Safety Act 85: 1993
- Construction regulations 2003
- Mines, Health and Safety Act 29: 1996
- Minerals Act 50: 1991

Where appropriate, these standards enjoy certification and are subject to both independent and internal audit by specialised auditors to assess implementation and efficacy. Comprehensive quarterly reports are presented to the respective boards and audit committees.

## Safety

The majority of the Aveng businesses are engaged in operations which are inherently dangerous. Safety is thus of primary importance. Not only do we owe it to our people, but a safe working environment also makes good commercial sense.

The management system includes specific procedures for the identification, reporting and recording of injuries. During the past year some 9 000 employees attended safety induction and other safety related courses compared to some 4 000 in the previous year. The disabling injury frequency rate (DIFR) has further improved to 0,59 for the year. The continued implementation and streamlining of the safety systems is bearing fruit with the target DIFR being zero. (Incidents per 200 000 man hours worked.)




Group companies hold some impressive safety awards including:

- Three NOSCAR awards including one platinum award
- 31 NOSA five star awards
- 23 NOSA four star awards
- Four BIFSA five star gradings
- International Top 100 award for World-class SHE performance (NOSA)
- BIFSA Presidents award
- NOSA international winner section F Construction for integrated safety, health and environment

A number of sites also achieved a million disabling injury free man-hours – an outstanding achievement.

## *Health*

Aveng is mindful of the devastating effect the HIV/Aids pandemic is having on the economic and social lives of its employees and the well-being of society as a whole. The Aveng board has approved an HIV/Aids policy and group companies are in the process of developing meaningful and relevant plans of action to address the challenges posed.

Together with Lifeline Southern Africa a wellness programme has been developed, the objectives of which are to:

- Educate employees and management on basic HIV/Aids issues
- Facilitate change in sexual behaviour
- Assist employees to access appropriate health services
- Create an environment in the workplace conducive to dealing with the situation constructively
- Ensure that the rights of employees living with HIV/Aids are protected
- Provide voluntary counselling and testing
- Distribute condoms to assist prevention

The pilot project, which began in 2003, has been successfully implemented across most of the group with fully functional committees, peer educators and voluntary counselling and testing facilities in 19 locations. To date 206 employees have agreed to voluntary testing with 14% testing positive. The company is not informed of the results but Lifeline works closely with those that tested positive over a ten week period and where necessary place them on the government anti-retroviral programme. Rollout of the wellness programme to the rest of the employees is due to begin shortly. By the end of 2005 the whole workforce should be actively involved in the programme.

# Environment

Environment

## Environment Policy

Aveng will ensure that its subsidiaries and associate companies conduct their business activities in accordance with the principles of sustainable development and in a manner that will promote the protection of the environment and the welfare of the broader community.

Specific actions include:

- developing environmental management systems based on ISO 14001 in the contracting companies and elsewhere as appropriate;
- complying with all relevant environmental legislation as well as with the environmental management commitments of our customers;
- ensuring that subcontractors and suppliers adopt environmentally responsible practices;
- committing to the minimising of pollution in any form by promoting a culture of environmental awareness;
- encouraging the conservative use of energy and other natural resources, reducing the generation of waste and preventing the discharge of any substance hazardous to the environment; and
- ensuring that there is continuous improvement in our environment conservation policies and practice though an ongoing programme of review and corrective action.

The group recognises the increasingly important impact that environmental issues can have on an organisation and their ability to positively or negatively affect the extent to which the group can achieve its objectives. In order to manage its environmental risks systematically and efficiently and achieve the group's stated goal of sustainable development, Aveng operating units are working towards implementing environmental management systems (EMS) in accordance with the ISO 14001 standard. Accreditation comes from the internationally respected "International Standards Organisation ISO 14001:1996". To date three business units have been accredited with another seven applications being processed.

Aveng will review progress and evaluate the environmental management systems at regular intervals in order to asses the ongoing suitability and effectiveness of the EMS in the light of changing conditions both within and outside the organisation. The results of the review may include recommendations to adapt the objectives and targets and even the environmental policy of the group.

Being a multi-faceted organisation operating in numerous countries within the developing world, many of the generally recognised environmental performance measures and annual comparisons of either absolute figures on normalised measures are not readily applicable to Aveng. This is because resource and energy utilisation, waste generation, air emissions and the nature of environmental impact constantly vary between the types of projects being developed and on circumstances at the time of the assessment.

Nevertheless, the group believes that sustainable development, aimed at meeting present needs without compromising future generations underpins the group's future and that of humanity. As there are no Generally Accepted Accounting Principles for reporting social and environmental performance the group has adopted the reporting framework proposed by the Global Reporting Initiative as a means to qualitatively report on the organisation's impact on living and non-living natural systems, including ecosystems, land, air and water.

### *Materials*

Aveng's subsidiary and associated companies use a variety of raw materials. The requirement for these materials is largely dependent on the type of development being undertaken. The amount of waste associated with the development project is usually low, utilising chemically inert substances that are readily recycled or have little or no impact on the biophysical environment.

### *Energy*

As we search for stable and long-term energy supplies, the group is committed to decreasing its reliance on non-renewable fossil fuels by increasing, where possible, its use of natural, renewable energy sources and hence reduce carbon dioxide emissions and minimise global climatic change.

For example, a substantial reduction in the environmental impacts currently associated with the production of energy by burning coal will be achieved from the recently completed construction of a pipeline for Sasol to transport natural gas from 33 gas wells in central Mozambique to Secunda in South Africa. The pipeline will deliver a heat energy equivalent of almost five million tons of coal per annum, to a network of users in South Africa, thereby substantially reducing the pollution, such as "acid rain" resulting from the production of energy by burning coal.

### *Water*

Substantial quantities of raw and treated water are utilised during the operations of subsidiary and associate companies in the group. The quantities used vary depending on the type of construction being undertaken. Water is recycled wherever possible and the little that is released is treated prior to its release into the environment.

The Sasol pipeline project referred to above is also an example of the group's commitment to conservation of the natural water resources. During construction, 19 major rivers, nearly 100 streams and creeks, and 98 wetlands were crossed in the 870 km distance between Temane in Mozambique and Secunda in South Africa. In order to preserve the water quality, hydrodynamics and functioning of these rivers and wetland ecosystems while installing the 66 cm diameter steel pipeline below ground, detailed, site-specific method statements were developed with the aid of various specialists, discussed with property owners and approved by the water authorities prior to construction. The large volume of water required for pressure hydro testing of the pipeline, was specifically sourced to ensure that there were no sulphur reducing bacteria in the source water. This negated the need to treat and subsequently contaminate the water with a corrosion prevention biocide and resulted in the safe return of the water in an uncontaminated state to the existing water users. This was particularly relevant as the area was experiencing its worst drought in ten years.

### *Biodiversity*

Consistent with the group's environmental policy and its position on sustainable development, the organisation actively endorses biodiversity worldwide in a manner that minimises impact on natural habitats and biological resources.

For example, the group has a strict set of mine reclamation standards that require mine planning to fully incorporate reclamation and biodiversity into its programme. For many years, group quarries led the quarrying industry in compliance with a rigorous programme to ensure that quarrying operations were carried out in an environmentally responsible manner.

Mining, quarrying and construction activities have been designed to segregate and separately stockpile topsoil, where feasible, for later use in rehabilitation, prevent erosion, make use of local indigenous plant and grass species and where possible to restore the land to its previous land use capability. The rehabilitation process is constantly monitored and reported on to ensure that progress is made and that the group's biodiversity goals are achieved.

## Emissions, effluents and wastes

Aveng recognises that all waste is cost. Activities within the group are therefore focused on waste reduction and recycling as a way to improve processes, decrease costs and minimise environmental impact. Recycling also contributes to reducing energy and raw materials consumption in line with sustainable development objectives.

Aveng has successfully completed numerous construction projects throughout the developing world without ever having had a major environmental incident and without having incurred fines for non-compliance with applicable international declarations, conventions and treaties or national, regional and local regulations associated with environmental issues.

## Some operational examples

### Opencast Mining

The mining operations conducted by Grinaker-LTA can have a significant impact on the environment and local communities. With this in mind there is close co-operation with the customer and communities to minimise the negative impact on the environment.

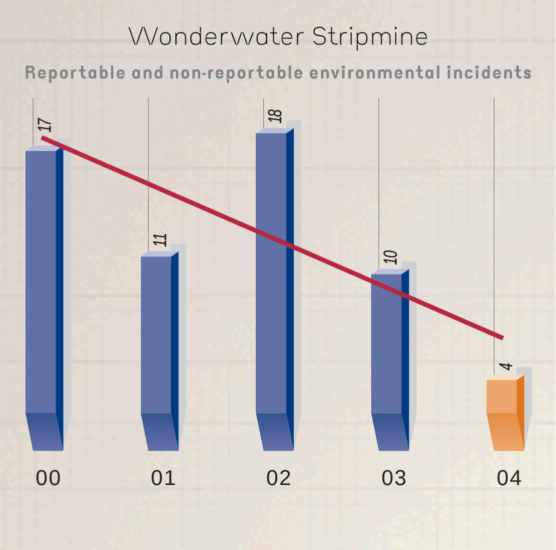
An example of this is the Wonderwater coal mine for Sigma Collieries which is in an environmentally sensitive area near the Vaal River. This is a classic "strip mine" where the overburden is replaced in the same order as it was removed. Since 1992 a total of 38 million tons of coal have been mined and over 180 million tons of overburden moved.

Dust buckets are situated around the mining area and the dust collected is analysed to determine its quantity and origin. Dust outfall has been kept within the required levels.

Water from the pit is used for dust suppression and irrigation of the mine property. The surplus is pumped to settlement ponds and then to evaporation ponds thereby ensuring a closed system.

During blasting both the ground vibration and air blast are accurately monitored to ensure compliance with set standards.

All used oils and lubricants are collected and recycled. Oil separators are placed at the wash and service bays to prevent contamination of ground water.



Recycle programmes are in place for oily rags, used oil and air filters and fluorescent light tubes.

All reportable and non-reportable environmental incidents are logged and where necessary remedial action is taken.

### Biomass facility

McConnell Dowell designed, constructed, commissioned and assisted in the finance of a biomass facility in Sydney Australia for its customer Earthpower Technologies.

The facility has the capacity to convert up to 100 000 tons per year of food waste from commercial and industrial sources primarily into biogas which is used to generate electricity sold into the grid.

The waste heat from the generators is recovered and used to maintain the operating temperature of the digesters. The biogas is also used in part to dry the solids output from the digesters to produce a commercial grade fertiliser. Besides displacing fossil fuels to produce green energy, food waste is diverted from landfills, further reducing emissions of methane and other greenhouse gasses. The process also captures the nutrient value of food waste by producing high quality solid and liquid fertilisers and re-usable clean water.

This biomass facility is the first of its type in Australia and continues the trend towards innovative waste management and more environmentally friendly forms of energy production.

### Mine dump reclamation

Dumps and tailings dams from early mining operations in the Barberton area were posing a serious pollution threat in the catchment area of the Crocodile River.

Grinaker-LTA Process Engineering built, own and operate small gold process plants which reprocess the old dumps, extract the residual gold and redeposit the tailings in specially designed tailings dams in which all polluted water is trapped and eventually evaporates.

Some 4,5 million tons of material have to date been moved to ecologically non-hazardous sites. The areas cleared of the old dumps are then re-vegetated. All river flows are monitored for water quality before, during and after reclamation. Data showing improved water quality indicates the process is a success.

### Water management at Foskor Phalaborwa

Grinaker-LTA Process Engineering was appointed by Foskor to provide an engineered solution to stop all point source discharge of process water into the Selati River which flows through the Kruger National Park.

The work was undertaken as an engineering, procurement and construction management (EPCM) contract which involved building 18 collection ponds around the existing tailings dams, a new collection dam and two new concrete buffer dams, all with associated pump stations and piping.

Surface seepage water from the tailings dams is collected in the collection ponds and then pumped to the collection dam. Water for use in the plant is pumped to the buffer dams where it is used in the flotation circuits of the phosphate recovery process. Approximately 70% of the estimated 200 mega litres of water used per day in the mining process is recycled.

The pictures show the collection ponds with a ramp in each to allow hippos to climb out when they inevitably enter for water.

# Value added statement for the group

| | 2004 Rm | 2003 Rm |
|---|---|---|
| Revenue | **11 739,7** | 13 244,2 |
| Net cost of products and services | **8 290,7** | 9 086,1 |
| Value added by operations | **3 449,0** | 4 158,1 |
| Income from investments and interest | **65,7** | 53,9 |
| Total value added | **3 514,7** | 4 212,0 |
| *Applied as follows to:* | | |
| Employees: salaries, wages and other benefits | **2 502,3** | 2 662,4 |
| Providers of capital: financing costs | **274,6** | 315,4 |
| The state: taxes on income | **(18,7)** | 100,6 |
| Providers of capital: dividends | **124,4** | 111,0 |
| Total value distributed | **2 882,6** | 3 189,4 |
| Reinvested in the group: amortisation and depreciation | **438,9** | 435,3 |
| retained reserves | **193,2** | 587,3 |
| Total value added | **3 514,7** | 4 212,0 |

# Definitions

| | |
|---|---|
| Average capital employed | Average of total shareholders' funds,minority interests and all interest-bearing debt. |
| Average ordinary shareholders' funds | Average of total shareholders' funds as reflected on the balance sheet including the equity component of subordinated debentures. |
| Cash earnings per share | Cash flow from operating activities divided by the total number of shares in issue. |
| Cash and cash equivalents | Cash on hand, deposits held on call with banks, investments in money market instruments and short-term bank borrowings, excluding current portion of non-current borrowings. |
| Current ratio | Current assets divided by current liabilities. Current liabilities include short-term borrowings and interest-free liabilities other than deferred taxation. |
| CPIX | Consumer price index excluding interest rates on mortgage bonds. |
| Diluted headline earnings and earnings per share | Headline earnings plus the after tax cost of the debenture interest divided by the sum of the weighted average number of shares and debentures in issue and the exercisable share options. |
| Dividend cover | Headline earnings per share divided by dividend per share. |
| Dividend yield | Dividend per share expressed as a percentage of the closing share price. |
| Earnings yield | Headline earnings per share expressed as a percentage of the closing share price. |
| Effective tax rate | Taxation as reflected on the income statement less any tax in respect of non-trading items divided by income before goodwill and non-trading items less income from associates and joint ventures, expressed as a percentage. |
| Headline earnings | Earnings per the income statement, adjusted for the specific items detailed in note 21 to the financial statements. |
| Headline earnings and earnings per share | Headline earnings and earnings per share divided by the weighted average number of shares in issue. |
| Interest-bearing debt | Interest-bearing borrowings including the short-term portion of long-term borrowings. |
| Interest cover | Operating income including associated and joint venture earnings divided by net interest paid. |
| Net asset value per ordinary share | Total ordinary shareholders' funds divided by the total number of ordinary shares in issue. |
| Net debt to equity | Interest-bearing debt less cash divided by total shareholders' funds |
| Return on average capital employed | Income before interest paid, taxation, amortisation of goodwill and non-trading items including income from investments and share of associate companies' retained earnings as a percentage of average capital employed. |
| Return on equity | Headline earnings as a percentage of average ordinary shareholders' funds |
| Revenue per employee | Revenue divided by the number of employees. |
| Segmental liabilities | Trade and other payables. |
| Segmental assets | Property, plant and equipment, goodwill, inventories, trade and other receivables. |

Bergisel Ski-jump: Austria
Architect: Zaha Hadid

The building is a hybrid of highly specialised sports facilities and public spaces, including a café and a viewing terrace. These different programs are combined into a single new shape which extends the topography of the slope into the sky.

At a length of about 90 metres and a height of almost 50 metres the building is a combination of a tower and a bridge. Structurally it is divided into the vertical concrete tower and a spatial green structure, which integrates the ramp and the café.

Two elevators bring visitors to the café 40 metres over the peak of the Bergisel Mountain. From here they can enjoy the surrounding alpine landscape as well as watch the athletes below fly above the Innsbruck skyline.

# Annual financial statements

for the year ended 30 June 2004

CONTENTS


84 Report of the independent auditors
84 Certificate of the company secretary
85 Directors' report
87 Accounting policies
92 Consolidated balance sheet
93 Consolidated income statement
94 Cash flow statement
95 Statement of changes in equity
96 Segmental report
97 Notes to the financial statements
122 Company balance sheet
123 Company income statement
124 Company cash flow statement
125 Company statement of changes in equity
126 Notes to the company financial statements
129 Schedule of investments
130 The group's major investments
132 Shareholders' diary
133 Shareholders' analysis
134 Notice of annual general meeting
135 Proxy form and notes (perforated)
IBC Corporate information


The annual financial statements and group annual financial statements which appear on pages 85 to 131 were approved by the directors on 10 September 2004 and are signed on their behalf.

**RB Savage**
*Chairman*

10 September 2004

**C Grim**
*Chief executive*

10 September 2004

# Report of the independent auditors

*TO THE MEMBERS OF AVENG LIMITED*

We have audited the annual financial statements and group annual financial statements set out on pages 85 to 131 for the year ended 30 June 2004. These financial statements are the responsibility of the company's directors. Our responsibility is to report on these financial statements based on our audit.

*SCOPE*

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; and
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

*AUDIT OPINION*

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 June 2004, and the results of their operations, cash flows and changes in equity for the year ended in accordance with South African Accepted Accounting Practice, International Financial Reporting Standards and in the manner required by the Companies Act in South Africa.

Ernst + Young

**Ernst & Young**
*Registered Accountants and Auditors*
*Chartered Accountants (South Africa)*

Johannesburg
10 September 2004

# Certificate of the company secretary

I, the undersigned, CM Bishop, in my capacity as company secretary, certify that:

- the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act 1973, as amended; and
- all such returns are true, correct and up to date.

**CM Bishop**
*Company secretary*

Morningside
10 September 2004

# Directors' report

*BUSINESS OF THE COMPANY*

Aveng Limited is a South African registered and listed company, included in the Basic Industries – Construction and Building Materials sector of the JSE Securities Exchange South Africa, with interests in construction, steel beneficiation and cementitious products. The company does not have a holding company. Primary subsidiaries include Grinaker-LTA Limited, Trident Steel Holdings (Pty) Limited and McConnell Dowell Corporation Limited. The group also holds a minority stake in Holcim (South Africa) (Pty) Limited. An organisational chart of the group, detailing its primary subsidiaries and associated interests may be found on page 8 of this annual report. Details of directors' interests at 30 June 2004 are detailed on page 117 of this annual report.

*DIRECTORS' RESPONSIBILITIES RELATING TO ANNUAL FINANCIAL STATEMENTS*

It is the directors' responsibility to prepare annual financial statements that fairly present the state of affairs, the results of operating and cash flows of the company and of the group. The external auditors are responsible for independently reporting on these annual financial statements.

The annual financial statements set out in this report have been prepared in accordance with the historical cost convention and the restatement of certain financial assets and liabilities to fair value in accordance with South African Statements of Generally Accepted Accounting Practice ("GAAP") and International Financial Reporting Standards ("IFRS"). They are based on appropriate accounting policies which have been consistently applied, unless otherwise indicated below, and which are supported by reasonable and prudent judgements and estimates. The annual financial statements have been prepared on a going-concern basis. The directors have no reason to believe that the businesses of the group will not be going concerns in the year ahead.

To fulfil its responsibilities, management maintains adequate accounting records and has developed and continues to maintain systems of internal financial controls.

The company and its subsidiaries' internal financial controls and systems are designed to provide reasonable but not absolute assurance as to the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain their assets. These controls are monitored throughout the group on a continuous basis. Nothing has come to the directors' attention to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

More detailed information in respect of the board's mechanisms for continual review of the controls and risks are set out in the corporate governance section of the annual report on page 53.

*FINANCIAL*

The results of the group's operations for the year are set out in the income statement on page 93.

Details of the movements in issued share capital and reserves are provided in the statement of changes in equity on page 95.

The segmental report is set out on page 96 of the annual financial statements.

The consolidated annual financial statements of the group are set out on pages 85 to 121 and the annual financial statements of the company on pages 122 to 131.

Details of earnings and the dividend declared are provided on pages 1 and 93.

*ACCOUNTING POLICIES*

The annual financial statements are prepared on the underlying assumptions of going concern and accrual as laid down in AC000 – Framework for the preparation and presentation of financial statements – issued by the South African Accounting Practices Board and prior year figures have not been readjusted.

The company's accounting policies are subjected to an annual review to ensure continuing compliance with South African Statements of GAAP and in compliance with IFRS statements. There was no material effect on the group's results in adopting the IFRS standards.

*INVESTMENTS*

Information regarding the company's interest in subsidiaries, associates, joint ventures and other investments is given on pages 129 to 131 to the annual financial statements.

*SHARE CAPITAL*

*Acquisition of shares by The Aveng Limited Share Incentive Scheme ("the trust")*

The trust acquired a net 4 375 shares from participants in terms of the rules of the scheme. The cost has been debited in the group's consolidated annual financial statements to the share premium account. The trust is consolidated into the group's results for reporting purposes.

# Directors' report (continued)

### ACQUISITIONS AND DISPOSALS

In terms of a scheme of arrangement the group acquired the balance of the shares that it did not already own in McConnell Dowell Corporation Limited, a company registered in Australia. The effective date of the acquisition was 18 August 2003. The price paid for the 15 739 723 shares acquired was Aus$1,54 a share plus a dividend of Aus$0,10 a share which was declared and paid to shareholders registered on 15 August 2003. In terms on an ancillary scheme of arrangement the option-holders, holding 1 269 000 options, were paid Aus$0,20 for each option held.

The group now owns 100% of the issued share capital of McConnell Dowell Corporation Limited, through a newly formed Australian-based holding company, Aveng Australia Holdings (Pty) Limited.

### DIRECTORATE

The following changes took place during the year:
Mr BPJ Fourie was appointed on 1 July 2003
Mr KW Meissner-Roloff was appointed on 1 July 2003
Ms L Gcabashe was appointed on 1 August 2003
Mr W Wassermeier retired on 24 November 2003
Mr CM Bishop was appointed company secretary 1 December 2003

### POST-BALANCE SHEET EVENTS

With effect from 1 July 2004, the group has concluded an agreement to dispose of 25% of the issued share capital of both Grinaker-LTA Limited and Trident Steel Holdings (Pty) Limited to Qakazana Investment Holdings (Pty) Limited for R496 million.

Qakaza Investment Holdings (Pty) Limited is a broadly-based black economic empowerment company.

### DIRECTORATE

Subsequent to the year-end:
Mr CV Campbell will retire on 29 October 2004
Mr M Taback will retire on 29 October 2004
Mr AR Mpungwe will retire on 29 October 2004
Mr PF Crowley will retire on 29 January 2005

### *Retirement by rotation and re-election*

In terms of the company's articles of association, Messrs C Grim, JR Hersov, AR Mpungwe and M Taback retire at the forthcoming annual general meeting. Messrs C Grim and JR Hersov, being eligible, offer themselves for re-election, whilst Messrs AR Mpungwe and M Taback will not make themselves available for re-election.

### *Increase in directors' fees*

An ordinary resolution is being proposed to increase the fees paid to directors by 5% with effect from 1 July 2004. The board is of the view that annual increases similar to those granted to employees are preferable to ad hoc increases granted on an infrequent basis. Directors' fees were benchmarked to the market last year, an exercise that will be repeated every few years. The effect of the resolution will be to increase by 5% the fees currently payable to each director rounded to the nearest R1 000 in aggregate. The table below details the individual fees per appointment.

| Directors' fees | 2004 | 2005 |
|---|---|---|
| Directors' fees | 98 000 | 102 900 |
| Board chairman | 54 000 | 56 700 |
| Deputy chairman | 40 000 | 42 000 |
| Audit committee | 76 000 | 80 000 |
| Remuneration committee | 14 700 | 15 400 |
| Nominations committee | 14 700 | 15 400 |
| Tender risk evaluation committee | 19 500 | 20 500 |

The fees payable in respect of executive directors are waived. The fees in respect of Mr Meissner-Roloff are paid to Holcim (South Africa) (Pty) Limited.

### MATERIAL SHAREHOLDERS

The holders of 5% or more of the issued ordinary shares in Aveng Limited at 30 June 2004 were:

| | Number of shares | % |
|---|---|---|
| Public Investment Commissioner | 68 842 011 | 17,4 |
| Old Mutual Group | 51 348 796 | 13,0 |
| Liberty Life Association of South Africa Limited | 32 260 436 | 8,1 |
| Sanlam | 22 638 072 | 5,7 |

The number of shares in the company held by The Aveng Limited Share Incentive Scheme at year-end was 6 910 930 (2003: 6 906 555) comprising 1,7% (2003: 1,7%) of the issued share capital of the company.

The non-public shareholding in the company at 30 June 2004 was 15,1% (2003: 16,6%). The analysis is shown on page 132.

### ASSOCIATED COMPANIES

An associated company is one in which the group exercises significant influence, but not control over the financial and operating policies of that company.

The group's share of post-acquisition reserves of such companies is included in the group financial statements on the equity accounting method.

If an associated company applies accounting policies that are materially different to those adopted by the group, adjustments are made to the financial statements of the associated company, prior to equity accounting the investment.

Certain associated companies do not have coterminous accounting dates. In cases where the associated company is listed, the most recent published financial information is used and in cases where the associated company is not listed, the most recent audited financial statements are used. Adjustments are made in both cases for the effects of any significant events or transactions when the financial information used is not coterminous.

### BASIS OF CONSOLIDATION

The group consolidated financial statements include the results and financial position of Aveng Limited and its subsidiaries up to 30 June each year.

Subsidiaries are those companies in which the group has an interest of 50% or more of the voting rights or otherwise has the power to exercise control over the operations.

The results of any subsidiaries acquired or disposed of during the year are included from the effective dates of acquisition and up to the effective dates of disposal.

All intra-group transactions and balances are eliminated on consolidation. Unrealised profits and losses are also eliminated, unless they reflect impairment in the assets so disposed.

### BASIS OF PREPARATION

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and International Financial Reporting Standards.

The financial statements have been prepared in accordance with the historical cost convention, and the restatement of certain financial assets and liabilities to fair value.

The accounting policies are consistent with those adopted in the previous year. As a result of IFRS adoption, IFRS 1 *First Time Adoption of International Financial Reporting Standards* (AC138) was implemented. As there were no material differences as a result of the transition to IFRS, it was not necessary to restate the comparatives.

### BORROWING COSTS

Borrowing costs are written off in the year in which they are incurred.

### CONTINGENT LIABILITIES

Contract performance guarantees issued by the parent company on behalf of a group company are calculated either on the basis of all or part of the contract sum of each respective assignment, depending on the terms of the agreement, without being offset against still unreceived compensation from the client.

In connection with contracting assignments, security is often provided in the form of a performance guarantee from a bank or insurance institution. The issuer of the guarantee, in turn, normally receives an indemnity from the contracting company or other group company. In compliance with industry custom, such indemnities related to the group's own contracting assignments are not reported as contingent liabilities, since they do not involve any increased liability compared to the contracting commitment.

### CONTRACTING PROFIT OR LOSS RECOGNITION

Profit is recognised on an individual contract basis using the percentage of completion method and management's judgement of the outstanding risks. Where a loss is anticipated on any particular contract, provision is made in full for such loss.

### CONTRACTS IN PROGRESS

Contracts in progress are carried at cost, plus profit recognised, less billings and recognised losses at balance sheet date. Cost includes indirect costs and overheads attributable to the contract.

Progress billings not received are included in contract debtors. Where progress billings exceed the aggregate of costs, plus profit, less losses, the net amounts are carried and shown as a reduction in trade and other receivables.

### DEFERRED TAX

Deferred tax is provided on all temporary differences except where exempted in terms of South African Statements of GAAP and International Financial Reporting Standards. Temporary differences are differences between the carrying amounts of assets and liabilities of financial reporting purposes and their tax base.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date.

Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition.

The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Where applicable, non-resident shareholders' taxation is provided in respect of foreign dividends received.

Dividends payable on equity instruments and any secondary tax on companies (STC) pertaining thereto are recognised in the year in which such dividends are declared. STC credits attributable to dividends received from subsidiaries and other investments are not recorded as deferred taxation assets.

### EMPLOYEE BENEFITS

#### Equity-based compensation

The group operates a share incentive plan for the granting of shares and/or share options to executives and senior employees.

Shares and options are offered to executives and senior employees at market price, upon recommendation by the remuneration committee.

The shares or options are released once payment has been received. Shares or options become available to executives and senior employees after an initial two-year period at the rate of 25% per annum thereafter and expire after 10 years.

The group provides for all shares or options granted to employees whether vested or not, at the difference between the option price, at date of grant, and the market value of the share when the right to the share or option transfers to the employee at date of grant and acceptance.

When employees exercise vested rights to shares or options, the cost thereof is expensed as a cost of employment to the income statement.

Shares held by the employee share trust are recorded at cost and disclosed in the balance sheet as a deduction from equity. The Aveng Limited Share Purchase Scheme is consolidated.

#### Short-term employee benefits

All short-term benefits, including leave pay, are fully provided in the period in which the related service is rendered by the employees.

#### Post-retirement benefits

Payments to the defined contribution retirement benefit plans are charged as an expense in the year to which they relate.

The current service cost in respect of defined benefit plans is recognised as an expense in the year in which the employee renders the service. Interest cost is recognised on a time proportional basis. Past service costs, experience adjustments, effects of changes in actuarial assumptions and the effects of plan amendments in respect of existing employees are charged to the income statement when they vest.

Defined benefit plans are not consolidated.

### FINANCIAL INSTRUMENTS

Financial instruments are recognised when the group becomes party to the contractual arrangement of the instrument.

All financial instruments are initially measured at cost, which includes direct transaction costs. Subsequent measurement of these instruments is set out below.

Financial assets are derecognised when, and only when, the group loses control of the contractual rights that comprise the financial asset, through realisation, expiration or surrender. Financial liabilities are derecognised when, and only when, they are extinguished through settlement, cancellation or expiry.

At each balance sheet date assessment is made of whether there is any objectives evidence of impairment of financial assets. If there is evidence then the recoverable amount is estimated and an impairment loss is recognised in accordance with AC133 and IAS39.

Financial assets and liabilities are not offset against each other.

Subsequent measurement of financial instruments:

- *Financial assets and liabilities held for trading*
  Financial assets and liabilities held for trading are carried at fair value. Gains and losses on mark-to-market adjustments are recognised in the income statement. The following items in the balance sheet have been classified as held for trading financial instruments:
  – derivatives consisting of forward exchange contracts and interest rate swaps.

- *Held to maturity financial assets*
  All held to maturity financial assets are carried at amortised cost.

- *Loans and receivables*
  Loans and receivables originated by the enterprise are carried at amortised cost. Amortised cost is calculated using the effective interest rate method which equates the present value of future expected cash flows to the current net carrying value. Short-term receivables are however carried at cost as the effect of imputing interest would be insignificant. Financial assets classified as loans and receivables originated by the enterprise consist of:
  – loans receivable; and
  – trade receivables.

- *Available for sale financial assets*
  All other financial assets are classified as available for sale financial assets. These financial assets are carried at fair value. Gains and losses on mark-to-market adjustments are recognised directly to equity. Financial assets classified as available for sale financial assets consist of:
  – equity investments.

- *Other financial liabilities*
  All other financial liabilities are carried at amortised cost (as described above). Financial liabilities carried on this basis are:
  – interest-bearing borrowings (long and short-term); and
  – trade payables and accruals.

  Where fair values cannot be reasonably measured, such financial instruments are carried at amortised cost where they have a fixed maturity date, or cost where there is no fixed maturity date.

- *Hedges*
  The group uses foreign exchange contracts to economically hedge their risks associated with foreign currency fluctuations. It is the group's policy not to speculate in foreign exchange contracts.

  For the purposes of hedge accounting, hedges are classified into two categories: (a) the hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges, which hedge exposure to variability in cash flow that is either attributable to a particular risk associated with a recognised asset or liability or to a forecast of that transaction.

  For economic hedges that do not qualify for special hedge accounting, the gains or losses arising from changes in the fair value of the hedging instruments are taken directly to the net profit or loss for the period.

  Fair value of derivatives and forward exchange contracts are calculated by reference to current forward exchange rates for contracts.

*FOREIGN CURRENCY TRANSACTIONS AND BALANCES*

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of these transactions. Monetary assets and liabilities are translated at the closing rate. Non-monetary assets and liabilities are translated at the ruling rate on the later of acquisition or revaluation dates.

Gains or losses on translation are credited or charged against income.

*FOREIGN ENTITIES*

The assets and liabilities of foreign operations not considered to be integrated foreign operations are translated into rand at rates of exchange ruling at the end of the financial year and gains and losses on translation are taken directly to equity. The results of their operations are translated at appropriate weighted average rates of exchange for the year.

### GOODWILL

Goodwill, being the excess of the purchase consideration over the group's attributable fair value of the net identifiable assets at date of acquisition, is capitalised.

Goodwill is amortised through the group income statement on a straight-line basis over its estimated useful life, with a maximum of 20 years.

Goodwill is stated at cost less accumulated amortisation and any impairment in value.

Any excess in the fair values of the net identifiable assets and liabilities acquired over the purchase consideration at the date of acquisition is recognised as negative goodwill.

The amount of negative goodwill remaining that does not exceed the fair value of the acquired identifiable assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable assets acquired.The amount of negative goodwill in excess of the fair value of acquired identifiable non-monetary assets is recognised in income immediately.

Any excess in the fair values of the net identifiable assets and liabilities acquired over the purchase consideration at the date of acquisition is recognised as negative goodwill. The amount of negative goodwill remaining that does not exceed the fair value of acquired identifiable assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable assets acquired. The amount of negative goodwill in excess of the fair value of acquired identifiable non-monetary assets is recognised in income immediately.

Goodwill existing in foreign entities is considered to be the asset of that foreign entity and translated at the closing rate.

### IMPAIRMENT

The carrying amounts of tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication that any loss is indicated. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount.

### INTEGRATED FOREIGN OPERATIONS

The monetary assets and liabilities of integrated foreign operations are translated into rand at rates of exchange ruling at the end of the financial year. The non-monetary assets and liabilities are translated at the rate of ruling on the later of acquisition or revaluation date.

The results of their operations are translated at an appropriate weighted average rate of exchange for the year. All gains and losses arising on such translations are recognised in operating profit.

### INVENTORIES

Inventory is valued at the lower of cost, determined on the first-in first-out (FIFO) basis and weighted average in respect of certain stock categories and net realisable value. The cost of manufactured goods includes production overheads.

### INVESTMENTS IN GROUP COMPANIES

Investments in group companies, which consist of subsidiaries, joint ventures and associates in the financial statements of the holding company, are stated at cost, less amounts written off where there has been an impairment.

### JOINT VENTURES

A joint venture is an enterprise in which the group has joint control over the financial and operating policy decisions.

The group accounts for its share of jointly controlled assets and operations. Jointly controlled entities are equity accounted in the group financial statements.

Where a joint venture applies accounting policies that are recognised as being materially different to those adopted by the group, adjustments are made to the financial statements of the joint venture prior to inclusion in the group financial statements.

Certain joint ventures do not have coterminous reporting dates. In those cases, the management financial statements at June are used.

### LEASED ASSETS

Assets acquired under financial lease agreements are capitalised at their cash equivalent with the concomitant amount reflected as a liability to the lessor.

Payments on finance leases are allocated between lease finance costs and capital repayments using the effective interest method.

Lease charges on operating leases are charged to income on a systematic basis.

Leased assets, which are subject to finance leases, are depreciated at the same rates as property, plant and equipment.

### *PROPERTY, PLANT AND EQUIPMENT*

Property, plant and equipment are stated at cost, less accumulated depreciation and impairments.

Land is not depreciated. Freehold buildings and other fixed assets are depreciated on a straight-line basis over their expected useful lives to an estimated residual value, if such value is material.

### *PROVISIONS*

A provision is recognised when the group has a legal or constructive obligation as a result of past events for which it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the effect is material, provisions are determined by discounting to present value.

### *RESEARCH AND DEVELOPMENT COSTS*

Research costs are written off as incurred. Development costs are written as incurred unless there is evidence of the requirements of AC129 and IAS38, where costs are considered recoverable from probable future cost savings and sales revenues. Where development costs are deferred, they are written off on the straight-line basis over the life of the product or process, subject to a maximum of five years. The amortisation begins from the commencement of the commercial production of the product to which they relate.

### *REVENUE RECOGNITION*

Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue can be measured reliably. Value-added taxation is excluded.

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.

Revenue from the **rendering of services** is recognised on an accrual basis over the period for which the services are rendered.

Revenue from **construction contracts** is recognised on the measured value of work performed at the balance sheet date.

**Dividends** on equity instruments are recognised when the right to receive payment is established.

**Interest** is recognised on a time proportion basis that takes account of the effective yield on the asset and an appropriate accrual is made at each accounting reference date.

### *SEGMENTAL REPORTING*

All segment revenue and expenses are directly attributable to the segments. Segment assets include all operating assets used by a segment, and consist principally of property, plant and equipment, as well as current assets. Segment liabilities include all operating liabilities and consist principally of trade and other payables. These assets and liabilities are all directly attributable to the segments.

The primary reporting format is determined in accordance with the nature of business and its secondary format is determined with reference to the geographical location of the operations.

### *SUPPLEMENTARY INFORMATION*

The group's presentation currency is South African rand. The supplementary information provided in US$ is translated at the closing rate for the balance sheet and at the average annual rate for the income statement.

### *TRADEMARKS*

The cost of trademarks acquired is capitalised and amortised on a straight-line basis over their estimated useful life. Internally developed trademark expenses are written off as and when incurred.

### *TREASURY SHARES*

Shares in Aveng Limited held by the Aveng Limited Share Purchase Scheme are treated as treasury shares. The shares are treated as a deduction from the issued and weighted average number of shares and the cost price of the shares is deducted from share capital and share premium in the balance sheet on consolidation. Dividends received on treasury shares are eliminated on consolidation.

# Consolidated balance sheet

as at 30 June 2004

| 2003* US$m | **2004* US$m** | | Note | **2004 Rm** | 2003 Rm |
|---|---|---|---|---|---|
| | | *ASSETS* | | | |
| | | *Non-current assets* | | | |
| 257,4 | **295,0** | Property, plant and equipment | 1 | **1 851,0** | 1 922,9 |
| 128,4 | **114,5** | Goodwill | 2 | **718,5** | 959,2 |
| 64,4 | **81,4** | Investment in associates and joint ventures | 3 | **511,0** | 480,7 |
| 6,1 | **7,0** | Other investments | 4 | **43,8** | 45,4 |
| 4,0 | **10,5** | Deferred tax | 5 | **65,8** | 29,8 |
| 460,3 | **508,4** | | | **3 190,1** | 3 438,0 |
| | | *Current assets* | | | |
| 150,1 | **162,2** | Inventories | 6 | **1 017,7** | 1 121,4 |
| 418,0 | **397,8** | Trade and other receivables | 7 | **2 496,1** | 3 122,5 |
| 90,2 | **118,9** | Cash and cash equivalents | 11 | **746,1** | 673,8 |
| 658,3 | **678,9** | | | **4 259,9** | 4 917,7 |
| 1 118,6 | **1 187,3** | *TOTAL ASSETS* | | **7 450,0** | 8 355,7 |
| | | *EQUITY AND LIABILITIES* | | | |
| | | *Capital and reserves* | | | |
| 2,6 | **3,1** | Share capital | 8 | **19,5** | 19,5 |
| 124,5 | **148,2** | Share premium | 9 | **929,8** | 929,9 |
| (13,4) | **(75,4)** | Non-distributable reserves | 10 | **(472,9)** | (100,1) |
| 264,2 | **325,6** | Distributable reserves | | **2 042,7** | 1 973,9 |
| 377,9 | **401,5** | *Total ordinary shareholders' funds* | | **2 519,1** | 2 823,2 |
| 23,3 | **0,8** | Minority interests | | **5,1** | 173,9 |
| 401,2 | **402,3** | *Total shareholders' funds* | | **2 524,2** | 2 997,1 |
| | | *Non-current liabilities* | | | |
| 98,0 | **102,6** | Interest-bearing borrowings | 11 | **643,4** | 732,1 |
| 7,1 | **4,4** | Deferred tax | 12 | **27,8** | 53,2 |
| 105,1 | **107,0** | | | **671,2** | 785,3 |
| | | *Current liabilities* | | | |
| 434,1 | **454,0** | Trade and other payables | 13 | **2 848,9** | 3 242,7 |
| 168,2 | **224,0** | Short-term interest-bearing borrowings | 11 | **1 405,7** | 1 256,2 |
| 10,0 | | Taxation payable | | | 74,4 |
| 612,3 | **678,0** | | | **4 254,6** | 4 573,3 |
| 1 118,6 | **1 187,3** | *TOTAL EQUITY AND LIABILITIES* | | **7 450,0** | 8 355,7 |

** Provided for information purposes only. The 2004 and 2003 US dollar figures do not form part of the statutory financial statements*

# Consolidated income statement

for the year ended 30 June 2004

| 2003* US$m | 2004* US$m | | Note | 2004 Rm | 2003 Rm |
|---|---|---|---|---|---|
| 1 471,6 | **1 712,1** | *Revenue* | 14 | **11 739,7** | 13 244,2 |
| 1 221,4 | **1 464,8** | Cost of sales | | **10 043,6** | 10 992,7 |
| 250,2 | **247,3** | *Gross profit* | | **1 696,1** | 2 251,5 |
| 133,8 | **157,3** | Operating expenses | | **1 078,6** | 1 204,4 |
| 116,4 | **90,0** | *Operating income before depreciation* | | **617,5** | 1 047,1 |
| 41,7 | **57,2** | Depreciation | 1 | **392,5** | 375,4 |
| 74,7 | **32,8** | *Operating income* | 15 | **225,0** | 671,7 |
| 17,2 | **26,9** | Income from associates and joint ventures | 3 | **184,4** | 155,1 |
| 6,0 | **9,6** | Income from investments | 16 | **65,7** | 53,9 |
| 97,9 | **69,3** | *Income before interest paid* | | **475,1** | 880,7 |
| 35,0 | **40,0** | Interest paid | 17 | **274,6** | 315,4 |
| 62,9 | **29,3** | *Income before goodwill and non-trading items* | | **200,5** | 565,3 |
| (6,7) | **(6,8)** | Amortisation of goodwill | 18 | **(46,4)** | (59,9) |
| 21,4 | **2,9** | Non-trading items | 19 | **19,6** | 192,4 |
| 77,6 | **25,4** | *Income before taxation* | | **173,7** | 697,8 |
| 11,2 | **(2,7)** | Taxation | 20 | **(18,7)** | 100,6 |
| 66,4 | **28,1** | *Income after taxation* | | **192,4** | 597,2 |
| 1,1 | **(0,1)** | Minority interests | | **(0,8)** | 9,9 |
| 65,3 | **28,2** | *Earnings* | | **193,2** | 587,3 |
| | | *Determination of headline earnings* | | | |
| 65,3 | **28,2** | Earnings | | **193,2** | 587,3 |
| (14,0) | **3,9** | Net adjustment for amortisation of goodwill and non-trading items | 21 | **26,8** | (125,6) |
| 51,3 | **32,1** | *Headline earnings* | 21 | **220,0** | 461,7 |
| | | *Earnings per share (cents)* | | | |
| 13,2 | **8,2** | Diluted headline | | **56,5** | 118,6 |
| 16,8 | **7,2** | Diluted earnings | | **49,6** | 150,9 |
| 13,2 | **8,2** | Headline | | **56,5** | 118,6 |
| 16,8 | **7,2** | Earnings | | **49,6** | 150,9 |
| 3,3 | **2,0** | *Dividend per share (cents)* | | **14,0** | 30,0 |
| | | *Number of shares (millions)* | | | |
| 396,1 | **396,1** | In issue | 8 | **396,1** | 396,1 |
| 389,3 | **389,2** | Weighted average | | **389,2** | 389,3 |
| 389,3 | **389,2** | Diluted weighted average | | **389,2** | 389,3 |

** Provided for information purposes only. The 2004 and 2003 US dollar figures do not form part of the statutory financial statements*

# Cash flow statement

for the year ended 30 June 2004

| | Note | 2004 Rm | 2003 Rm |
|---|---|---|---|
| *Cash flow retained from operating activities* | | | |
| Cash flow retained from operations | 22.1 | **198,2** | 804,2 |
| Depreciation | | **392,5** | 375,4 |
| Non-cash movements | 22.2 | **23,8** | (163,6) |
| Cash generated by operations | | **614,5** | 1 016,0 |
| Income from investments | | **65,7** | 53,9 |
| Working capital decrease/(increase) | 22.3 | **142,3** | (334,1) |
| Cash generated by operating activities | | **822,5** | 735,8 |
| Interest paid | 22.4 | **(274,6)** | (315,4) |
| Taxation paid | 22.5 | **(112,7)** | (118,5) |
| Cash available from operating activities | | **435,2** | 301,9 |
| Dividend paid | 22.6 | **(124,4)** | (111,0) |
| | | **310,8** | 190,9 |
| *Investing activities* | | | |
| Fixed assets purchased – expansion | | **(244,6)** | (403,8) |
| – replacement | | **(168,5)** | (423,8) |
| Minorities acquired | | **(136,3)** | (2,4) |
| Investments in associate companies | 22.7 | **133,8** | 221,9 |
| Other investments | 22.8 | **1,5** | 19,0 |
| Proceeds disposal of fixed assets | | **114,9** | 275,9 |
| | | **(299,2)** | (313,2) |
| *Financing activities* | | | |
| Long-term borrowings – raised | | **38,4** | 673,3 |
| – repaid | | **(93,3)** | (520,4) |
| | | **(54,9)** | 152,9 |
| *Cash and cash equivalents at end of year* | | | |
| Net (decrease)/increase in cash and cash equivalents | | **(43,3)** | 30,6 |
| Cash and cash equivalents at beginning of year | | **(400,3)** | (430,9) |
| | 22.9 | **(443,6)** | (400,3) |

# Statement of changes in equity

for the year ended 30 June 2004

| | Share capital Rm | Share premium Rm | Attributable reserves of equity accounted investments Rm | Foreign currency translation Rm | Other non-distributable reserves Rm | Retained income Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| *Balance at 1 July 2002* | 19,5 | 932,0 | 36,5 | 75,0 | 0,2 | 1 491,8 | 2 555,0 |
| Dividends paid | | | | | | (105,2) | (105,2) |
| Earnings for the year | | | | | | 587,3 | 587,3 |
| Equity accounted reserve movements | | | (42,6) | | | | (42,6) |
| Foreign currency translation | | | | (169,2) | | | (169,2) |
| Net movement in treasury shares | | (2,1) | | | | | (2,1) |
| *Balance at 30 June 2003* | 19,5 | 929,9 | (6,1) | (94,2) | 0,2 | 1 973,9 | 2 823,2 |
| Dividends paid | | | | | | **(124,4)** | **(124,4)** |
| Earnings for the year | | | | | | **193,2** | **193,2** |
| Equity accounted reserve movements | | | **(14,7)** | | | | **(14,7)** |
| Foreign currency translation | | | | **(358,1)** | | | **(358,1)** |
| Net movement in treasury shares | | **(0,1)** | | | | | **(0,1)** |
| *Balance at 30 June 2004* | **19,5** | **929,8** | **(20,8)** | **(452,3)** | **0,2** | **2 042,7** | **2 519,1** |

# Segmental report

for the year ended 30 June 2004

| | | **2004 Rm** | **%** | 2003 Rm | % |
|---|---|---|---|---|---|
| *BUSINESS SEGMENTATION* | | | | | |
| *Revenue* | Construction | **7 585,1** | **64,6** | 9 832,4 | 74,2 |
| | Steel & Allied | **4 154,6** | **35,4** | 3 411,8 | 25,8 |
| | | **11 739,7** | **100,0** | 13 244,2 | 100,0 |
| *Operating income* | Construction | **(179,4)** | **(79,7)** | 342,9 | 51,0 |
| | Steel & Allied | **404,4** | **179,7** | 328,8 | 49,0 |
| | | **225,0** | **100,0** | 671,7 | 100,0 |
| *Assets* | Construction | **3 378,0** | **55,5** | 4 961,8 | 69,6 |
| | Steel & Allied | **2 704,9** | **44,5** | 2 164,2 | 30,4 |
| | | **6 082,9** | **100,0** | 7 126,0 | 100,0 |
| *Liabilities* | Construction | **1 843,9** | **64,7** | 2 624,5 | 80,9 |
| | Steel & Allied | **1 005,0** | **35,3** | 618,2 | 19,1 |
| | | **2 848,9** | **100,0** | 3 242,7 | 100,0 |
| *Capital expenditure* | Construction | **257,0** | **62,2** | 664,2 | 80,3 |
| | Steel & Allied | **156,1** | **37,8** | 163,4 | 19,7 |
| | | **413,1** | **100,0** | 827,6 | 100,0 |
| *Depreciation* | Construction | **319,3** | **81,4** | 329,5 | 87,8 |
| | Steel & Allied | **73,2** | **18,6** | 45,9 | 12,2 |
| | | **392,5** | **100,0** | 375,4 | 100,0 |
| *GEOGRAPHICAL SEGMENTATION* | | | | | |
| *Revenue* | Republic of South Africa (CMA) | **7 547,4** | **64,3** | 7 871,5 | 59,4 |
| | Africa and Middle East | **2 414,5** | **20,6** | 3 398,3 | 25,7 |
| | Australasia and South East Asia | **1 777,8** | **15,1** | 1 974,4 | 14,9 |
| | | **11 739,7** | **100,0** | 13 244,2 | 100,0 |
| *Assets* | Republic of South Africa (CMA) | **3 228,1** | **53,1** | 3 105,1 | 43,6 |
| | Africa and Middle East | **2 182,7** | **35,9** | 3 233,9 | 45,4 |
| | Australasia and South East Asia | **672,1** | **11,0** | 787,0 | 11,0 |
| | | **6 082,9** | **100,0** | 7 126,0 | 100,0 |
| *Capital expenditure* | Republic of South Africa (CMA) | **284,9** | **69,0** | 374,1 | 45,2 |
| | Africa and Middle East | **100,0** | **24,2** | 415,4 | 50,2 |
| | Australasia and South East Asia | **28,2** | **6,8** | 38,1 | 4,6 |
| | | **413,1** | **100,0** | 827,6 | 100,0 |

# Notes to the financial statements

for the year ended 30 June 2004

| | Land and buildings Rm | Owned plant, equipment and vehicles Rm | Leased plant, equipment and vehicles Rm | **Total 2004 Rm** | Total 2003 Rm |
|---|---|---|---|---|---|
| *1. PROPERTY, PLANT AND EQUIPMENT* | | | | | |
| *Cost* | | | | | |
| At beginning of year – historical cost | 293,1 | 3 228,7 | 265,8 | **3 787,6** | 3 421,2 |
| Foreign exchange movements | (3,4) | (34,7) | (20,5) | **(58,6)** | (102,4) |
| Additions | 20,8 | 372,9 | 19,4 | **413,1** | 827,7 |
| Disposals | (17,0) | (203,3) | (0,2) | **(220,5)** | (358,9) |
| Reclassification of assets | 64,5 | (64,5) | | | |
| At end of year | 358,0 | 3 299,1 | 264,5 | **3 921,6** | 3 787,6 |
| *Accumulated depreciation* | | | | | |
| At beginning of year – historical cost | 58,8 | 1 761,4 | 44,5 | **1 864,7** | 1 651,2 |
| Foreign exchange movements | 1,2 | (35,1) | (7,0) | **(40,9)** | (58,1) |
| Current year change | 14,1 | 349,4 | 29,0 | **392,5** | 375,4 |
| Disposals | (2,7) | (142,9) | (0,1) | **(145,7)** | (103,8) |
| At end of year | 71,4 | 1 932,8 | 66,4 | **2 070,6** | 1 864,7 |
| *Net book value at end of year* | 286,6 | 1 366,3 | 198,1 | **1 851,0** | 1 922,9 |
| *Land and buildings comprise:* | | | | | |
| Freehold | | | | **334,1** | 272,1 |
| Long leasehold | | | | **23,9** | 21,0 |
| | | | | **358,0** | 293,1 |
| The replacement value of assets for insurance purposes amounts to | | | | **5 236,4** | 4 673,3 |

There are no investment properties.

| **Rates and methods of depreciation** | **Method** | **Rate** | **Rate** |
|---|---|---|---|
| Freehold buildings | Straight line | 2% | 2% |
| Leasehold property | Straight line | Lease period | Lease period |
| Plant and machinery | Straight line | 25% | 25% |
| Office equipment | Straight line | 10 – 33% | 10 – 33% |
| Furniture and fittings | Straight line | 15 – 20% | 15 – 20% |
| Motor vehicles | Straight line | 25% | 25% |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

| | | | 2004 Rm | 2003 Rm |
|---|---|---|---|---|
| 1. | *PROPERTY, PLANT AND EQUIPMENT (continued)* | | | |
| | Included in plant, equipment and vehicles are fixed assets with a net book value of R198,1 million (2003: R221,2 million) which are subject to finance lease agreements. | | | |
| | The cost of fully depreciated plant and equipment that was still in use at 30 June 2004 was R361,7 million (2003: R231,2 million). | | | |
| | A register containing details of land and buildings is available for inspection during business hours at the registered office of the company by members or their duly authorised agents. | | | |
| | The carrying amount of PP&E which is temporarily idle is | | **nil** | nil |
| | The carrying amount of PP&E which is retired from active service and held for disposal | | **nil** | nil |
| | There are no assets with impaired values. | | | |
| 2. | *GOODWILL* | | | |
| | *Gross carrying amount* | | | |
| | At beginning of year | | **1 145,3** | 1 230,2 |
| | Acquisition of subsidiaries | | **(33,3)** | |
| | Disposal of business | | | (11,1) |
| | Foreign exchange movements | | **(154,8)** | (73,8) |
| | At end of year | | **957,2** | 1 145,3 |
| | *Accumulated amortisation* | | | |
| | At beginning of year | | **186,1** | 154,5 |
| | Current year change | Note 18, 21 | **46,4** | 59,9 |
| | Disposal of business | | | (6,3) |
| | Foreign exchange movements | | **6,2** | (22,0) |
| | At end of year | | **238,7** | 186,1 |
| | *Net carrying amount at end of year* | | **718,5** | 959,2 |

| | 2004 Rm | 2003 Rm |
|---|---|---|
| **3. *INVESTMENT IN ASSOCIATES AND JOINT VENTURES*** | | |
| Unlisted | **511,0** | 480,7 |
| *Investment* | | |
| At beginning of year | **480,7** | 498,8 |
| Disposals | **(6,0)** | (22,5) |
| Dividends received | **(151,6)** | (182,9) |
| Exchange difference adjustments | **(0,3)** | (23,5) |
| Loans advanced | **10,4** | 50,3 |
| Capital repaid | | (89,3) |
| Impairment | **3,9** | (8,6) |
| Share on non-trading items | **4,2** | 145,9 |
| Share of reserve movements in the year | **(14,7)** | (42,6) |
| Share of results before taxation | **292,0** | 263,5 |
| Share of taxation | **(107,6)** | (108,4) |
| At end of year | **511,0** | 480,7 |
| *The group's share of aggregate assets, liabilities and results of operations and cash flow of associate and joint venture companies are summarised hereunder:* | | |
| Non-current assets | **887,4** | 587,2 |
| Current assets | **498,8** | 750,2 |
| | **1 386,2** | 1 337,4 |
| Current liabilities | **695,6** | 546,5 |
| Interest-bearing debt | **199,7** | 201,8 |
| Non-interest-bearing debt | **110,7** | 108,4 |
| Equity | **380,2** | 480,7 |
| | **1 386,2** | 1 337,4 |
| Revenue | **2 247,9** | 2 130,2 |
| Expenses | **1 920,8** | 1 841,0 |
| Net surplus after tax on non-trading items | **4,2** | 145,9 |
| Net finance costs | **35,1** | 16,6 |
| Income before taxation | **296,2** | 418,5 |
| Taxation | **107,6** | 117,4 |
| Income after taxation | **188,6** | 301,1 |
| Net cash inflow/(outflow) from operating activities | **65,7** | (57,2) |
| Net cash inflow/(outflow) from investing activities | **(105,0)** | 84,4 |
| Net cash inflow/(outflow) from financing activities | **(6,7)** | 14,0 |
| Net increase/(decrease) in cash and cash equivalents | **(46,0)** | 41,2 |
| Cash and cash equivalents at beginning of period | **59,4** | 18,1 |
| Cash and cash equivalents at end of period | **13,4** | 59,3 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

| | | 2004 Rm | 2003 Rm |
|---|---|---|---|
| 4. | *OTHER INVESTMENTS* | | |
| | At beginning of year | **45,4** | 9,1 |
| | Additional interest acquired | | 36,3 |
| | Disposals | **(1,6)** | |
| | At end of year | **43,8** | 45,4 |
| | The directors value the above unlisted investment in the N3TC at not less than fair value. | | |
| 5. | *DEFERRED TAX* | | |
| | At beginning of year | **29,8** | 22,4 |
| | Transfer from/(to) income statement – current year | **21,5** | (0,1) |
| | Permanent differences arising on consolidation | | 10,6 |
| | Arising on the acquisition and disposal of subsidiaries | **6,9** | (3,1) |
| | Other timing differences | **7,6** | |
| | At end of year | **65,8** | 29,8 |
| | Balance at end of year comprises: | | |
| | Capital allowances | **(47,7)** | 2,4 |
| | Other timing differences | **87,1** | 27,4 |
| | Unrealised foreign exchange loss | **14,5** | |
| | Permanent differences arising on consolidation | **10,6** | |
| | Assessed losses carried forward | **1,3** | |
| | | **65,8** | 29,8 |
| 6. | *INVENTORIES* | | |
| | Raw materials | **326,8** | 303,0 |
| | Consumable stores | **202,3** | 266,1 |
| | Work in progress | **36,5** | 54,5 |
| | Finished goods | **393,6** | 427,4 |
| | Properties held for development and resale | **58,5** | 70,4 |
| | | **1 017,7** | 1 121,4 |
| | No inventories are valued at net realisable value. | | |

| | 2004 Rm | 2003 Rm |
|---|---|---|
| **7. *TRADE AND OTHER RECEIVABLES*** | | |
| Costs incurred plus profits recognised, less estimated losses relating to contracts in progress at year-end, less progress payments | **149,4** | 557,8 |
| Amounts receivable in excess of amounts billed | **364,9** | 493,9 |
| | **514,3** | 1 051,7 |
| Advances receivable in excess of work performed | **(580,9)** | (812,6) |
| Net amounts due on contracts | **(66,6)** | 239,1 |
| Retentions receivable | **160,0** | 240,9 |
| Contracts in progress less progress payments | **93,4** | 480,0 |
| Trade | **827,4** | 770,1 |
| Contract debtors | **1 218,0** | 1 412,0 |
| Pre-payments and other | **357,3** | 460,4 |
| | **2 496,1** | 3 122,5 |
| **8. *SHARE CAPITAL*** | | |
| *Authorised* | | |
| Ordinary share capital | | |
| 882 034 263 ordinary shares of 5 cents each | **44,1** | 44,1 |
| Issued | | |
| Total issued share capital of 396 145 908 (2003: 396 145 908) ordinary shares of 5 cents each | **19,5** | 19,5 |
| The 485 888 355 unissued ordinary shares are under the control of the directors until the forthcoming annual general meeting. | | |
| **9. *SHARE PREMIUM*** | | |
| At beginning of year | **929,9** | 932,0 |
| Net movement in treasury shares | **(0,1)** | (2,1) |
| At end of year | **929,8** | 929,9 |
| **10. *NON-DISTRIBUTABLE RESERVES*** | | |
| Balance at end of the year comprises: | | |
| Associated companies' and joint ventures' retained reserves | **(20,8)** | (6,1) |
| Capital redemption reserve fund | **0,2** | 0,2 |
| Foreign currency translation reserve | **(452,3)** | (94,2) |
| | **(472,9)** | (100,1) |

| | | 2004 Rm | 2003 Rm |
|---|---|---|---|
| **11. INTEREST-BEARING BORROWINGS** | | | |
| **11.1 Non-current borrowings** | | | |
| Summary of loans by financial year of redemption | | | |
| 2004 | | | 182,1 |
| 2005 | | **216,0** | 175,1 |
| 2006 | | **279,7** | 272,9 |
| 2007 | | **94,9** | 82,8 |
| 2008 | | **70,0** | 66,1 |
| 2009 | | **49,7** | 135,2 |
| 2010 onwards | | **149,1** | |
| Total borrowings | Note 11.2 | **859,4** | 914,2 |
| Current portion included in short-term borrowings | | **(216,0)** | (182,1) |
| | | **643,4** | 732,1 |
| *Short-term interest-bearing borrowings* | | | |
| Overdrafts | Note 22.9 | **192,5** | 205,4 |
| Short-term call accounts | Note 22.9 | **997,2** | 868,7 |
| Current portion of non-current borrowings | | **216,0** | 182,1 |
| | | **1 405,7** | 1 256,2 |
| Total interest-bearing borrowings | | **2 049,1** | 1 988,3 |

| | Final repayment date | Rate of interest per year (payable half-yearly) **2004** **%** | 2003 % | **2004** **Rm** | 2003 Rm |
|---|---|---|---|---|---|
| *11. INTEREST-BEARING BORROWINGS (continued)* | | | | | |
| *11.2 Analysis of total non-current borrowings* | | | | | |
| Unsecured loans | | | | | |
| Local | | | | | |
| | 2004 | | 11 – 17,2 | | 133,9 |
| | 2005 | **11 – 17,2** | 11 – 17,2 | **175,3** | 137,9 |
| | 2006 | **11 – 17,2** | 11 – 17,2 | **243,6** | 233,8 |
| | 2007 | **11 – 17,2** | 11 – 17,2 | **56,3** | 48,0 |
| | 2008 | **11 – 17,2** | 11 – 17,2 | **53,8** | 47,2 |
| | 2009 | **11 – 17,2** | 11 – 17,2 | **47,5** | 135,2 |
| | 2010 onwards | **11 – 17,2** | | **27,3** | |
| | | | | **603,8** | 736,0 |
| Secured loans | | | | | |
| Local | | | | | |
| | 2004 | | 8 – 15 | | 48,2 |
| | 2005 | **8 – 15** | 8 – 15 | **40,7** | 37,2 |
| | 2006 | **8 – 15** | 8 – 15 | **36,1** | 39,0 |
| | 2007 | **8 – 15** | 8 – 15 | **38,6** | 34,9 |
| | 2008 | **8 – 15** | 8 – 15 | **16,2** | 18,9 |
| | 2009 | **8 – 15** | 8 – 15 | **2,2** | |
| | 2010 onwards | **8 – 15** | | **121,8** | |
| | | | | **255,6** | 178,2 |
| Total non-current interest-bearing borrowings | | | Note 11.1 | **859,4** | 914,2 |

The company and its subsidiaries have entered into cross-suretyships in respect of current and future financial obligations to FirstRand Bank Limited amounting to R439,0 million (2003: R538,9 million). These amounts are included above.

The following covenants are applicable:
Net debt to equity, interest cover and Ebitda less replacement capex divided by net finance costs.

Finance lease liabilities are secured against the appropriate asset.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

| | **2004 Rm** | **%** | 2003 Rm | % |
|---|---|---|---|---|
| *11. INTEREST-BEARING BORROWINGS (continued)* | | | | |
| *11.3 Borrowings and cash analysis* | | | | |
| Gross borrowings – Geographic | | | | |
| South Africa | **2 019,8** | **98,6** | 1 732,0 | 87,1 |
| Foreign | **29,3** | **1,4** | 256,3 | 12,9 |
| | **2 049,1** | **100,0** | 1 988,3 | 100,0 |
| Cash – Geographic | | | | |
| South Africa | **251,0** | **33,6** | 358,3 | 53,2 |
| Foreign | **495,1** | **66,4** | 315,5 | 46,8 |
| | **746,1** | **100,0** | 673,8 | 100,0 |

| | **2004 Gross Rm** | **2004 Cash Rm** | **2004 Net Rm** | % | 2003 Net Rm | % |
|---|---|---|---|---|---|---|
| Fixed and variable | | | | | | |
| Fixed – long term | **386,0** | | **386,0** | 29,6 | 732,2 | 55,7 |
| – short term | **475,3** | | **475,3** | 36,5 | 182,1 | 13,9 |
| Variable | **1 187,8** | **746,1** | **441,7** | 33,9 | 400,2 | 30,4 |
| | **2 049,1** | **746,1** | **1 303,0** | 100,0 | 1 314,5 | 100,0 |

| | **2004 Rm** | 2003 Rm |
|---|---|---|
| *12. DEFERRED TAX* | | |
| At beginning of year | **53,2** | 89,3 |
| Transfer from/(to) income statement – current year | **(35,9)** | (0,2) |
| – prior years | **0,5** | (1,9) |
| Arising on the acquisition/disposal of subsidiaries | **9,2** | (23,7) |
| Exchange difference | **0,8** | (10,3) |
| At end of year | **27,8** | 53,2 |
| Balance at end of year comprises: | | |
| Accelerated capital allowances | **25,6** | 76,8 |
| Other timing differences | **(6,5)** | (12,3) |
| Capitalised finance leases | **3,9** | |
| Foreign tax temporary differences | **4,8** | (11,3) |
| | **27,8** | 53,2 |

| | | 2004<br>Rm | 2003<br>Rm |
|---|---|---|---|
| **13.** | ***TRADE AND OTHER PAYABLES*** | | |
| | Trade | **1 158,6** | 1 441,3 |
| | Accrued expenses | **1 690,3** | 1 801,4 |
| | | **2 848,9** | 3 242,7 |
| **14.** | ***REVENUE*** | | |
| | Goods | **4 204,8** | 4 169,3 |
| | Construction contract revenue | **7 344,8** | 9 019,5 |
| | Services | **190,1** | 55,4 |
| | | **11 739,7** | 13 244,2 |

Revenue comprises sales of goods and services and selling commissions, value of work done by contracting companies, fees, commission and rentals.

Revenue represents the gross inflows of economic benefits during the period arising in the course of ordinary activities of the group when those inflows result in increases in equity other than increases relating to contributions from equity participants.

| | | | 2004<br>Rm | 2003<br>Rm |
|---|---|---|---|---|
| **15.** | ***OPERATING INCOME DISCLOSURES*** | | | |
| | In arriving at operating income the following items have been taken into account: | | | |
| | Auditors' remuneration | – fees for audit | **14,5** | 16,5 |
| | | – fees for other services | **1,5** | 4,4 |
| | | – expenses | **0,2** | 0,1 |
| | Depreciation of property, plant and equipment | – land and buildings | **14,1** | 10,9 |
| | | – plant, equipment and vehicles | **378,4** | 364,5 |
| | Disposal of other investments (surplus) | | **(0,7)** | |
| | Disposal of property, plant, machinery, equipment and vehicles (surplus) | | **(40,1)** | (20,8) |
| | Foreign exchange (losses) | | **(95,6)** | (90,1) |
| | Operating lease expenses | – buildings | **41,9** | 25,8 |
| | | – plant, machinery, equipment and vehicles | **61,2** | 56,3 |
| | Remuneration services | – managerial, secretarial, financial, technical | | 3,0 |
| | Staff costs | – salaries and wages | **2 240,1** | 2 402,8 |
| | | – bonuses | **94,6** | 110,4 |
| | | – contributions to retirement funds | **94,8** | 74,8 |
| | | – contributions to medical funds | **72,8** | 77,1 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

| | | | 2004 Rm | 2003 Rm |
|---|---|---|---|---|
| 16. | *INCOME FROM INVESTMENTS* | | | |
| | Dividends – unlisted | | **4,9** | |
| | Interest – external | | **60,8** | 53,9 |
| | | | **65,7** | 53,9 |
| 17. | *INTEREST PAID* | | | |
| | Interest expense | | **274,6** | 315,4 |
| | No borrowing costs have been capitalised during the year (2003: Nil) | | | |
| 18. | *AMORTISATION OF GOODWILL* | | | |
| | Goodwill is amortised through the income statement over its estimated useful life, with a maximum of 20 years | Note 2, 21 | **46,4** | 59,9 |
| 19. | *NON-TRADING ITEMS* | | | |
| | Disposal of properties (surplus) | Note 21 | **(4,2)** | (0,7) |
| | Disposal of investments (surplus) | Note 21 | **(15,4)** | (191,7) |
| | | | **(19,6)** | (192,4) |
| 20. | *TAXATION* | | | |
| | South African normal taxation – current | | **33,0** | 71,8 |
| | – prior year | | **1,1** | (5,0) |
| | Deferred tax | | **(57,0)** | (12,6) |
| | Foreign taxation – current | | **4,2** | 44,9 |
| | Secondary tax on companies | | | 1,0 |
| | Capital gains tax | | | 0,5 |
| | | | **(18,7)** | 100,6 |

| | | | 2004 Rm | 2003 Rm |
|---|---|---|---|---|
| 20. | *TAXATION (continued)* | | | |
| | Reconciliation of rate of taxation (%) | | | |
| | Standard rate of company taxation | | **30,0** | 30,0 |
| | Adjusted for: | | | |
| | Assessed loss utilised | | **(7,8)** | (1,1) |
| | Current year's tax losses not utilised | | **23,4** | 3,0 |
| | Disallowable expenditure | | **6,9** | 3,2 |
| | Exempt income | | **(38,6)** | (3,5) |
| | Foreign tax adjustment | | **(5,7)** | (1,5) |
| | Income from associates | | **(0,3)** | (14,4) |
| | Other | | **(11,9)** | 0,3 |
| | Prior years | | **(6,8)** | (1,6) |
| | Effective taxation rate | | **(10,8)** | 14,4 |
| | Effective rate of taxation for the year before amortisation of goodwill, other non-trading items and associated companies | | **n/a** | 24,5 |
| | The estimated losses which are available for the reduction of future taxable income are R326,9 million (2003: R174,2 million) of which R135,8 million (2003: R7 million) has been taken into account in calculating deferred taxation. | | | |
| | The group has estimated unused credits in respect of secondary tax on companies amounting to R345,6 million (2003: R304,1 million). | | | |
| | These credits are available to be carried forward for set-off against future dividends payable by the company in establishing the liability for any secondary tax on companies that may become payable. | | | |
| 21. | *EARNINGS AND HEADLINE EARNINGS PER SHARE* | | | |
| | *Weighted average number of shares:* | | | |
| | For calculation of earnings and diluted earnings per share | | **389 241 901** | 389 319 175 |
| | *Determination of headline and diluted headline earnings:* | | | |
| | Adjustment for amortisation of goodwill | Note 2, 18 | **46,4** | 59,9 |
| | Disposal of properties (surplus) | Note 19 | **(4,2)** | (0,7) |
| | Disposal of investments (surplus) | Note 19 | **(15,4)** | (191,7) |
| | Taxation | | | 6,9 |
| | | | **26,8** | (125,6) |
| | Earnings | | **193,2** | 587,3 |
| | Headline earnings | | **220,0** | 461,7 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

| | | 2004 Rm | 2003 Rm |
|---|---|---|---|
| 22. | *NOTES TO THE CASH FLOW STATEMENT* | | |
| 22.1 | *Cash flows retained from operations* | | |
| | Net income before tax | 173,7 | 697,8 |
| | Adjust for: | | |
| | Income from associates | (184,4) | (155,1) |
| | Income from investments | (65,7) | (53,9) |
| | Interest paid | 274,6 | 315,4 |
| | | 198,2 | 804,2 |
| 22.2 | *Non-cash movements* | | |
| | Disposal of property, plant and equipment (surplus) | (40,1) | (20,9) |
| | Disposals of investments (surplus) | (0,7) | (259,6) |
| | Foreign exchange translation movements | 58,4 | 90,7 |
| | Non-trading items and cash foreign currency translation | (25,4) | (33,7) |
| | Other non-cash items | (14,8) | |
| | Write-off of goodwill and other intangibles | 46,4 | 59,9 |
| | | 23,8 | (163,6) |
| 22.3 | *Working capital movements* | | |
| | Inventories decrease | 103,7 | 128,1 |
| | Trade and other receivables (decrease/(increase)) | 626,4 | (101,9) |
| | Trade and other payables (decrease) | (393,8) | (264,8) |
| | | 336,3 | (238,6) |
| | Foreign exchange translations included in working capital – (losses) | (194,0) | (95,5) |
| | | 142,3 | (334,1) |
| 22.4 | *Net financing costs* | | |
| | Net financing costs per income statement | 274,6 | 315,4 |
| 22.5 | *Normal taxation paid* | | |
| | Amounts unpaid at beginning of year | 74,4 | 56,0 |
| | Amounts charged to the income statement | 38,3 | 113,2 |
| | Prior year adjustment | | 23,7 |
| | Amounts (unpaid) at end of year | | (74,4) |
| | | 112,7 | 118,5 |

| | | 2004 Rm | 2003 Rm |
|---|---|---|---|
| **22. NOTES TO THE CASH FLOW STATEMENT** *(continued)* | | | |
| **22.6 Dividends paid** | | | |
| Amounts charged to equity | | **124,4** | 105,2 |
| Amounts paid to minorities of subsidiaries | | | 5,8 |
| | | **124,4** | 111,0 |
| **22.7 Associated companies and joint ventures** | | | |
| Disposals | | **(7,4)** | |
| Dividends received | | **151,6** | 182,9 |
| Net loans advanced | | **(10,4)** | (50,3) |
| Return of equity | | | 89,3 |
| | | **133,8** | 221,9 |
| **22.8 Other investments** | | | |
| Repayment of loans | | **1,5** | |
| Net return of capital | | | 19,0 |
| | | **1,5** | 19,0 |
| **22.9 Cash and cash equivalents** | | | |
| Deposits and cash | | **746,1** | 673,8 |
| Overdrafts | Note 11.1 | **(192,5)** | (205,4) |
| Short-term call accounts | Note 11.1 | **(997,2)** | (868,7) |
| | | **(443,6)** | (400,3) |
| **23. COMMITMENTS** | | | |
| *Capital commitments* | | | |
| Capital expenditure authorised – contracted for | | **48,4** | 120,1 |
| – not contracted for | | **70,6** | 38,6 |
| | | **119,0** | 158,7 |
| It is anticipated that this expenditure will be financed by cash generated from activities and existing borrowing facilities. | | | |
| *Operating lease commitments* | | | |
| The future minimum lease payments under non-cancellable operating leases are as follows: | | | |
| – less than one year | | **102,5** | 107,4 |
| – more than one year but less than five years | | **435,0** | 333,5 |
| – more than five years | | **42,1** | 150,9 |
| | | **579,6** | 591,8 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

| | 2004 Rm | 2003 Rm |
|---|---|---|
| **24. CONTINGENT LIABILITIES** | | |
| Contingent liabilities at balance sheet date, not otherwise provided for in the annual financial statements, arising from: | | |
| – guarantees in the normal course of business from which it is anticipated that no material liabilities will arise: | | |
| – guarantees | **14,9** | 42,4 |
| – other, including claims | **23,1** | 7,8 |
| | **38,0** | 50,2 |

| | Foreign amount 2004 | Foreign amount 2003 | Rand amount 2004 | Rand amount 2003 |
|---|---|---|---|---|
| **25. FOREIGN EXCHANGE EXPOSURE** | | | | |
| *Forward exchange contracts on imports* | | | | |
| Australian dollars | | | **0,4** | |
| Euro | **8,8** | 8,6 | **74,0** | 83,4 |
| Swiss franc | **0,3** | | **1,5** | |
| UK pounds | | 0,1 | **0,6** | 0,8 |
| US dollars | | 5,1 | | 43,7 |
| | | | **76,5** | 127,9 |
| *Forward exchange contracts on exports* | | | | |
| Australian dollars | | | **0,3** | |
| Bahraini dinar | | | **0,4** | |
| Canadian dollar | **0,1** | | **0,4** | |
| Euro | **0,1** | | **0,5** | |
| UK pounds | **0,3** | | **3,4** | |
| US dollars | **3,4** | | **22,3** | |
| | | | **27,3** | |

The group does not enter into forward exchange contracts which do not relate to specific items.

## 25. *FOREIGN EXCHANGE EXPOSURE (continued)*

### *Foreign currency payables and receivables*

| | Foreign amount 2004 | Foreign amount 2003 | Rand amount 2004 | Rand amount 2003 |
|---|---|---|---|---|
| Payables | | | | |
| Australian dollars | **21,2** | 89,8 | **91,7** | 447,7 |
| Ethiopian birr | **5,7** | | **4,2** | |
| Euro | **4,8** | 4,0 | **36,6** | 40,5 |
| Fiji dollars | **21,9** | | **6,2** | |
| Metical | **176 749,2** | 207,8 | **18,1** | 66,8 |
| New Zealand dollars | **7,4** | | **29,2** | |
| Nigeria niara | **1 390,3** | | **67,2** | |
| Pula | **13,4** | 28,4 | **18,1** | 43,1 |
| Singapore dollars | **6,0** | | **22,0** | |
| UK pounds | **0,6** | 2,2 | **7,2** | 26,6 |
| US dollars | **32,8** | 46,0 | **205,7** | 344,5 |
| Zambian kwacha | **8 248,7** | | **10,7** | |
| Zimbabwe dollars | **3 408,1** | | **4,0** | |
| | | | **520,9** | 969,2 |
| Receivables | | | | |
| Australian dollars | **28,6** | 83,2 | **124,1** | 414,5 |
| Ethiopian birr | **4,4** | | **3,3** | |
| Euro | **0,2** | 1,5 | **1,9** | 13,0 |
| Fiji dollars | **63,2** | | **17,9** | |
| Metical | **211 091,0** | 184,7 | **58,9** | 36,8 |
| New Zealand dollars | **10,3** | | **40,8** | |
| Nigeria niara | **1 056,0** | | **51,1** | |
| Pula | **21,7** | 45,1 | **29,1** | 68,3 |
| Singapore dollars | **2,4** | | **8,8** | |
| UK pounds | **2,3** | 3,0 | **26,3** | 36,8 |
| US dollars | **38,8** | 52,9 | **243,3** | 395,0 |
| Zambian kwacha | **23 409,0** | | **30,5** | |
| Zimbabwe dollars | **6 325,8** | | **7,4** | |
| | | | **643,4** | 964,4 |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

| | Assets | Liabilities | Net asset/ (liability) exposure |
|---|---|---|---|
| 25. *FOREIGN EXCHANGE EXPOSURE (continued)* | | | |
| *Exposure to uncovered foreign exchange* | | | |
| Australian dollars | | 0,1 | (0,1) |
| Euro | 0,1 | 0,1 | |
| Swiss franc | | 0,4 | (0,4) |
| UK pounds | 0,3 | | 0,3 |
| US dollars | 2,9 | 0,4 | 2,5 |

| | **2004** | | 2003 | |
|---|---|---|---|---|
| | **Closing** | **Average** | Closing | Average |
| *Foreign exchange rate table – material currencies* | | | | |
| Australian dollars | **4,33** | **4,86** | 4,98 | 5,24 |
| Euro | **7,59** | **8,15** | 8,53 | 9,37 |
| UK pounds | **11,34** | **11,91** | 12,33 | 14,26 |
| US dollars | **6,28** | **6,86** | 7,47 | 9,00 |

## 26. EMPLOYEE BENEFITS

### 26.1 Post-retirement benefits

The group has a number of retirement benefit plans for its eligible employees. These plans comprise both defined contribution and defined benefit plans. South African funds are governed by the Pension Funds Act, 1956, as amended. Other funds are governed by the respective legislation of the country concerned. Approximately 20,8% (2003: 22,1%) of the employees are members of company funds. Other employees are members of provident funds administered by employee organisations within the industries in which they are employed.

Pension fund plans are evaluated by independent actuaries at intervals not exceeding three years. The latest valuations indicated that the plans were adequately funded in terms of the requirements of the Registrar of Pension Funds, and no changes to any rates were recommended.

| | 2004 Rm | 2003 Rm |
|---|---|---|
| **26. EMPLOYEE BENEFITS** *(continued)* | | |
| **26.1 Post-retirement benefits** *(continued)* | | |
| The principal group funds are: | | |
| Number of members | | |
| Grinaker-LTA Limited Retirement Plan | **3 033** | 3 310 |
| Grinaker Limited "Closed" Benefit Plan | **59** | 68 |
| McConnell Dowell Corporation Limited Plan | **459** | 467 |
| Trident Steel Retirement Fund | **505** | 472 |

The group's retirement benefit expense was R94,8 million (2003: R74,8 million).

| | 2004 Rm | 2003 Rm |
|---|---|---|
| **26.2 Defined benefit plan** | | |
| Valuation method: | | |
| Projected unit credit method | **Yes** | Yes |
| Principal assumptions: | | |
| Discount rate (%) | **9,75** | 9,75 |
| Expected return on assets (%) | **9,75** | 10,25 |
| General inflation (%) | **6,00** | 6,25 |
| Salary inflation (%) | **7,00** | 7,25 |
| | **+promotional** | +promotional |
| Present value of obligation: | | |
| Opening balance at 1 July | **200,4** | 144,3 |
| Interest cost on opening balance | **19,5** | 14,5 |
| Current service cost | **0,9** | 0,8 |
| Change in obligation due to past service costs | | 53,1 |
| Actuarial gain/(loss) | **(7,1)** | 0,5 |
| Benefits paid | **(14,7)** | (12,8) |
| Closing balance at 30 June 2003 | **199,0** | 200,4 |
| Past service costs charges: | | |
| Amount already vested | | 53,1 |
| Fair value of plan assets: | | |
| Opening balance at 1 July | **231,8** | 228,4 |
| Expected return on fund assets | **23,8** | 22,8 |
| Contributions received | **0,8** | 0,5 |
| Actuarial gain/(loss) | **(4,6)** | (7,3) |
| Benefits paid | **(14,7)** | (12,8) |
| Closing balance at 30 June 2004 | **237,1** | 231,6 |
| Net assets not recognised | **38,1** | 31,2 |

Plan assets are only brought to account in the group's financial statements when it is clear that economic benefits will be available to the group.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

*26. EMPLOYEE BENEFITS (continued)*

*26.3 Executive share incentive scheme*

In terms of the Aveng Limited Share Incentive Scheme, full-time employees of the company and any of its subsidiaries, including directors holding full-time salaried employment or office, are entitled under the scheme to hold 5% (presently 19 807 295 shares) of the issued share capital. No one participant may acquire shares in excess of 2% (presently 7 922 918 shares) of the issued share capital of the company.

| | **Number of shares 2004** | Number of shares 2003 |
|---|---|---|
| The movements during the year under review were as follows: | | |
| Balance at the beginning of the year | **15 653 113** | 14 389 825 |
| Options granted or scheme shares allocated | **621 000** | 3 386 500 |
| Options exercised or allocation shares delivered | **(1 119 700)** | (1 701 183) |
| Options or scheme shares forfeited | **(629 900)** | (422 029) |
| Balance at the end of the year | **14 524 513** | 15 653 113 |

Details of share options exercised and allocations taken up during the period:

| | **2004 R** | 2003 R |
|---|---|---|
| Average subscription or purchase price | **6,63** | 6,49 |
| Range of market price at dates of exercising option or taking delivery | **7,09 – 9,75** | 7,70 – 10,68 |

26. *EMPLOYEE BENEFITS (continued)*

26.3 *Executive share incentive scheme (continued)*

The options outstanding at 30 June 2004 become unconditional between the following dates:

| | Subscription price | **Number of shares 2004** | Number of shares 2003 |
|---|---|---|---|
| 1 September 2000 and 1 September 2008 | 3,60 | **755 000** | 799 500 |
| 17 April 2002 and 17 April 2010 | 6,90 | **825 000** | 900 000 |
| 25 May 2002 and 25 May 2010 | 6,10 | **1 973 750** | 2 296 250 |
| 1 September 2002 and 1 September 2010 | 6,20 | **410 000** | 443 750 |
| 29 November 2002 and 29 November 2010 | 5,80 | **6 182 763** | 7 322 113 |
| 1 October 2003 and 1 October 2011 | 7,55 | **505 000** | 505 000 |
| 23 October 2004 and 23 October 2012 | 9,11 | **567 500** | 567 500 |
| 23 March 2005 and 23 March 2013 | 8,61 | **2 698 000** | 2 819 000 |
| 1 October 2005 and 1 October 2013 | 8,55 | **567 500** | |
| 1 October 2005 and 1 October 2013 | 8,70 | **40 000** | |
| | | **14 524 513** | 15 653 113 |

The right to take delivery or to exercise the option vests in tranches two years from the date of allocation at the rate of 25% each year for four years. Participants can defer exercising the options subject to the rules of the scheme but must exercise within ten years of the allocation date.

Should the option holder resign from a group company prior to the vesting dates as indicated above, the right to the shares or options will be forfeited.

Share options issued by the company that require settlement in cash are considered to be a financial liability to the company. On issue of the option the cost of the option is expensed, reduced by any amounts to be paid by employees to acquire the option. The liability is fairly valued at balance sheet date by accounting for the difference in the options and market price at year-end. Any changes in the value of the liability is recognised in net profit in the period in which it occurs.

The Aveng Limited Share Purchase Scheme will be funded out of its own resources, if any, and/or loans to be made by employers of participants in accordance with the provisions of section 38(2) of the Act. The scheme held 6 910 930 ordinary shares at 30 June 2004 (2003: 6 906 555 ordinary shares).

The trust's accounts are consolidated with the group figures.

27. *BORROWING CAPACITY*

In terms of the articles of association the borrowing powers of the group are unlimited.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

## 28. *RISK MANAGEMENT*

The group does not trade in financial instruments but, in the normal course of operations, the group is exposed to currency, credit and liquidity risk. In order to manage these risks, the group may enter into transactions which make use of financial instruments. The group has developed a risk management process to facilitate, control and monitor these risks. This process includes formal documentation of policies, including limits, controls and reporting structures.

*Fair value*

At 30 June 2004, the carrying amounts of all financial instruments approximated their fair values.

*Credit risk*

The group's only material exposure to credit risk is in its receivables and deposits and cash balances and loan to associates and joint ventures. Receivables represent amounts owing to the operating companies, and credit risk is managed at that level. The group has no significant concentration of credit risk. Deposits and cash balances are all kept at reputable financial institutions and limits are set throughout the group in this connection.

Trade debtors comprise a number of customers, dispersed across different geographical areas. Ongoing credit evaluations are performed on the financial condition of these and other receivables. Trade debtors are presented net of the allowance for doubtful debts.

*Interest rate risk*

Deposits and cash balances all carry interest at rates that vary in response to prime.

In order to limit the exposure to interest rate risk, the company enters into interest rate swaps as approved by the board. An interest rate swap was entered into during January 2002 for the amount of R100 million at a fixed rate of 10,25% nacq, closing out during January 2005. A fair value adjustment of R6,3 million has been debited to the income statement at 30 June 2004.

All other interest rate information is contained in the relative notes.

## 29. *RELATED PARTIES*

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with associates and joint ventures. Those transactions occurred under terms that are no less favourable than those arranged with third parties.

| | **2004**<br>**Rm** | 2003<br>Rm |
|---|---|---|
| The value of the transactions is as follows: | | |
| Included in sales | **18,2** | 35,3 |
| Included in cost of sales | **15,4** | 29,6 |

There were no related party transactions with directors or entities in which the directors have a material interest other than amounts less than R100 000 in both periods

| For the year ended 30 June 2004 | Salary R000 | Retirement fund contributions R000 | Other benefits R000 | Guaranteed remuneration R000 | Bonus R000 | **Total 2004 R000** |
|---|---|---|---|---|---|---|
| 30. *DIRECTORS' REMUNERATION AND INTERESTS* | | | | | | |
| *Directors' remuneration* | | | | | | |
| Executive directors | | | | | | |
| PF Crowley | 1 786 | 255 | 236 | 2 277 | | **2 277** |
| BPJ Fourie | 1 124 | 167 | 129 | 1 420 | 2 259 | **3 679** |
| DR Gammie | 991 | 127 | 162 | 1 280 | 90 | **1 370** |
| C Grim | 1 765 | 243 | 292 | 2 300 | 165 | **2 465** |
| HDK Jones | 1 571 | 161 | 217 | 1 949 | | **1 949** |
| W Wassermeier* | 510 | 75 | 84 | 669 | | **669** |
| | 7 747 | 1 028 | 1 120 | 9 895 | 2 514 | **12 409** |

*(retired 24/11/03)

| | Fees as director R000 | Chairman fees R000 | Attendance at internal boards R000 | Sub-committee fees R000 | Other group fees R000 | **Total 2004 R000** |
|---|---|---|---|---|---|---|
| Non-executive directors | | | | | | |
| CV Campbell | 98 | | | 76 | | **174** |
| PL Erasmus | 98 | | | 87 | | **185** |
| L Gcabashe | 98 | | | | | **98** |
| JR Hersov | 98 | | | 44 | | **142** |
| KW Meissner-Roloff | 98 | | | | | **98** |
| VZ Mntambo | 98 | | | 55 | | **153** |
| AR Mpungwe | 98 | | | | 41 | **139** |
| RB Savage | 98 | 54 | 148 | 27 | | **327** |
| BP Steele | 98 | | | 76 | | **174** |
| M Taback | 98 | | | | | **98** |
| | 980 | 54 | 148 | 365 | 41 | **1 588** |

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

| For the year ended 30 June 2003 | Salary R000 | Retirement fund contributions R000 | Other benefits R000 | Guaranteed remuneration R000 | Bonus R000 | Total 2003 R000 |
|---|---|---|---|---|---|---|
| 30. *DIRECTORS' REMUNERATION AND INTERESTS (continued)* | | | | | | |
| *Directors' remuneration (continued)* | | | | | | |
| Executive directors | | | | | | |
| PF Crowley | 1 507 | 255 | 222 | 1 984 | 500 | 2 484 |
| DR Gammie | 823 | 170 | 157 | 1 150 | 500 | 1 650 |
| C Grim | 1 405 | 282 | 286 | 1 973 | 900 | 2 873 |
| HDK Jones | 1 289 | 188 | 199 | 1 676 | 425 | 2 101 |
| W Wassermeier | 1 010 | 179 | 226 | 1 415 | 350 | 1 765 |
| | 6 034 | 1 074 | 1 090 | 8 198 | 2 675 | 10 873 |

| | Fees as director R000 | Chairman fees R000 | Attendance at internal boards R000 | Sub-committee fees R000 | Other group fees R000 | Total 2003 R000 |
|---|---|---|---|---|---|---|
| Non-executive directors | | | | | | |
| CV Campbell | 90 | | | 70 | | 160 |
| MM Doyle | 23 | | | | | 23 |
| PL Erasmus | 90 | | | 80 | | 170 |
| JR Hersov | 90 | | | 30 | | 120 |
| VZ Mntambo | 90 | | | 35 | | 125 |
| AR Mpungwe | 90 | | | | 162 | 252 |
| PJ Owen | 30 | | | 11 | | 41 |
| RB Savage | 90 | 50 | 135 | 25 | | 300 |
| BP Steele | 45 | | | 20 | | 65 |
| M Taback | 90 | | | | | 90 |
| | 728 | 50 | 135 | 271 | 162 | 1 346 |

Executive directors' fees are waived in favour of Aveng.

| | 2004 Ordinary shares | 2003 Ordinary shares |
|---|---|---|
| 30. *DIRECTORS' REMUNERATION AND INTERESTS (continued)* | | |
| *Interest of directors of the company in share capital* | | |
| Executive directors | | |
| DR Gammie | **143 128** | 143 128 |
| C Grim | **391 267** | 391 267 |
| HDK Jones | **25 000** | 25 000 |
| | **559 395** | 559 395 |
| Non-executive directors | | |
| CV Campbell | **10 300** | 10 300 |
| PL Erasmus | **130 000** | 150 000 |
| JR Hersov | **50 000** | 50 000 |
| BP Steele | **4 166** | 4 166 |
| | **194 466** | 214 466 |
| Total | **753 861** | 773 861 |
| % of issued securities | **0,2** | 1,4 |

All securities are beneficially held. The shares in which Mr JR Hersov has a shared beneficial interest are held through a family trust. Mr BP Steele's interest is non-beneficial.The company has not been advised of any changes in the above interests during the period 1 July 2004 to the date of this report.

# Notes to the annual financial statements (continued)

for the year ended 30 June 2004

*30. DIRECTORS' REMUNERATION AND INTERESTS (continued)*

*Executive share incentive scheme*

| | Date from which exercisable | Date on which expires | Price | Number entitled to at 30 June 2003 | Number granted during the year | Number redeemed or taken up during the year | **Number entitled to at 30 June 2004** |
|---|---|---|---|---|---|---|---|
| PF Crowley | Nov 02 | Nov 10 | 5,80 | 300 000 | | 150 000 | **150 000** |
| | Oct 04 | Oct 12 | 9,11 | 75 000 | | | **75 000** |
| | Sep 05 | Oct 13 | 8,55 | | 75 000 | | **75 000** |
| DR Gammie | Sep 00 | Sep 08 | 3,60 | 105 000 | | | **105 000** |
| | Sep 02 | Sep 10 | 6,20 | 78 750 | | | **78 750** |
| | Oct 03 | Oct 11 | 7,55 | 105 000 | | | **105 000** |
| | Oct 04 | Oct 12 | 9,11 | 105 000 | | | **105 000** |
| | Sep 05 | Oct 13 | 8,55 | | 105 000 | | **105 000** |
| C Grim | Sep 00 | Sep 08 | 3,60 | 275 000 | | | **275 000** |
| | Sep 02 | Sep 10 | 6,20 | 206 250 | | | **206 250** |
| | Oct 03 | Oct 11 | 7,55 | 275 000 | | | **275 000** |
| | Oct 04 | Oct 12 | 9,11 | 275 000 | | | **275 000** |
| | Sep 05 | Oct 13 | 8,55 | | 275 000 | | **275 000** |
| HDK Jones | Sep 00 | Sep 08 | 3,60 | 125 000 | | | **125 000** |
| | Apr 02 | Apr 10 | 6,90 | 250 000 | | | **250 000** |
| | Sep 02 | Sep 10 | 6,20 | 62 500 | | | **62 500** |
| | Nov 02 | Nov 10 | 5,80 | 150 000 | | | **150 000** |
| | Oct 03 | Oct 11 | 7,55 | 62 500 | | | **62 500** |
| | Oct 04 | Oct 12 | 9,11 | 62 500 | | | **62 500** |
| | Sep 05 | Oct 13 | 8,55 | | 62 500 | | **62 500** |
| Retired | Nov 02 | Nov 10 | 5,80 | 200 000 | | 200 000 | |
| directors | Oct 04 | Oct 12 | 9,11 | 50 000 | | 50 000 | |
| | | | | 2 762 500 | 517 500 | 400 000 | **2 880 000** |

| | Selling or take-up price R | Number redeemed or taken up | Sold | Redeemed to purchase | Held |
|---|---|---|---|---|---|
| *30. DIRECTORS' REMUNERATION AND INTERESTS (continued)* | | | | | |
| *Executive shares redeemed or taken up* | | | | | |
| PF Crowley | 8,65 | | 150 000 | | |

*Interest of directors in contracts*

A conflict of interest with regard to directors' interest in contracts does not exist.

# Company balance sheet

as at 30 June 2004

| | Note | 2004 Rm | 2003 Rm |
|---|---|---|---|
| *ASSETS* | | | |
| *Non-current assets* | | | |
| Investment in associates and joint ventures | A | **101,7** | 101,7 |
| Investment in subsidiaries | B | **2 831,5** | 1 726,6 |
| | | **2 933,2** | 1 828,3 |
| *Current assets* | | | |
| Trade, other receivables and prepayments | | **10,7** | 1,7 |
| Subsidiaries – current accounts | | | 442,4 |
| – short-term loans | | | 534,3 |
| Cash and cash equivalents | | **0,2** | |
| | | **10,9** | 978,4 |
| *TOTAL ASSETS* | | **2 944,1** | 2 806,7 |
| *EQUITY AND LIABILITIES* | | | |
| *Capital and reserves* | | | |
| Share capital | C | **19,8** | 19,8 |
| Share premium | D | **940,1** | 940,1 |
| Non-distributable reserves | | **(59,5)** | 0,2 |
| Distributable reserves | | **428,5** | 392,0 |
| *Total shareholders' funds* | | **1 328,9** | 1 352,1 |
| *Non-current liabilities* | | | |
| Loans from subsidiaries | | | |
| – Non-interest-bearing borrowings | | **914,0** | 914,0 |
| | | **914,0** | 914,0 |
| *Current liabilities* | | | |
| Trade and other payables | E | **4,2** | 12,3 |
| Subsidiaries – current accounts | | **247,9** | |
| Short-term borrowings | F | **446,9** | 528,3 |
| Taxation | | **2,2** | |
| | | **701,2** | 540,6 |
| *TOTAL EQUITY AND LIABILITIES* | | **2 944,1** | 2 806,7 |

# Company income statement

for the year ended 30 June 2004

| | Note | **2004 Rm** | 2003 Rm |
|---|---|---|---|
| Expenses | | **1,3** | 2,0 |
| *Loss* | | **(1,3)** | (2,0) |
| Income from investments | G | **209,5** | 422,4 |
| *Income before interest paid* | | **208,2** | 420,4 |
| Interest paid | | **49,4** | 67,3 |
| *Income before taxation* | | **158,8** | 353,1 |
| Taxation | H | **3,5** | 0,3 |
| *Income after taxation* | | **155,3** | 352,8 |

* *Figures refer to notes to the consolidated annual financial statements. Letters refer to notes to the holding company annual financial statements*

# Company cash flow statement

for the year ended 30 June 2004

| | Note | **2004 Rm** | 2003 Rm |
|---|---|---|---|
| *Cash retained from operating activities* | | **(504,1)** | 90,4 |
| Cash generated by operations | I1 | **(1,3)** | (2,0) |
| Income from investments | G | **209,5** | 422,4 |
| Net current assets (increase) | I2 | **(542,8)** | (155,4) |
| Cash generated by operating activities | | **(334,6)** | 265,0 |
| Interest paid | | **(49,4)** | (67,3) |
| Taxation paid | | **(1,3)** | (0,3) |
| Cash available from operating activities | | **(385,3)** | 197,4 |
| Dividend paid | | **(118,8)** | (107,0) |
| *Investing activities* | | | |
| Investments – acquisitions net of disposals | | | |
| – subsidiaries and businesses | I3 | **(574,2)** | (173,8) |
| – associate companies and other investments | I4 | | 89,4 |
| – loans and other group investments | | **625,6** | |
| | | **51,4** | (84,4) |
| Net decrease/(increase) in cash and cash equivalents | | **(452,7)** | 6,0 |
| Cash and cash equivalents at beginning of year | | **6,0** | |
| Cash and cash equivalents at end of year | I5 | **(446,7)** | 6,0 |

# Company statement of changes in equity

for the year ended 30 June 2004

| | Share capital Rm | Share premium Rm | Non-distributable reserves Rm | Distributable reserves Rm | Total Rm |
|---|---|---|---|---|---|
| *Balance at 1 July 2002* | 19,8 | 940,1 | 0,2 | 146,2 | 1 106,3 |
| Conversion of debentures | | | | | |
| Expenses on issue of shares | | | | | |
| Earnings for the year | | | | 352,8 | 352,8 |
| Dividends paid | | | | (107,0) | (107,0) |
| *Balance at 30 June 2003* | 19,8 | 940,1 | 0,2 | 392,0 | 1 352,1 |
| Earnings for the year | | | | **155,3** | **155,3** |
| Dividends paid | | | | **(118,8)** | **(118,8)** |
| Foreign currency translation | | | **(59,7)** | | **(59,7)** |
| *Balance at 30 June 2004* | **19,8** | **940,1** | **(59,5)** | **428,5** | **1 328,9** |

*Note: The non-distributable reserves consist of a capital redemption reserve fund*

# Notes to the company financial statements

for the year ended 30 June 2004

| | | 2004 Rm | 2003 Rm |
|---|---|---|---|
| A | *INVESTMENT IN ASSOCIATES AND JOINT VENTURES* | | |
| | Balance at beginning of year | **101,7** | 191,1 |
| | Repayment of capital | | (89,4) |
| | Balance at end of year | **101,7** | 101,7 |
| | Comprising: | | |
| | Unlisted shares at cost | **101,7** | 101,7 |
| | The directors' valuation of unlisted shares is not less than their carrying value. | | |
| B | *INVESTMENT IN SUBSIDIARIES* | | |
| | Balance at beginning of year | **1 726,6** | 1 801,8 |
| | Transfer of investment in a subsidiary to a fellow subsidiary | | (217,8) |
| | Subsidiaries purchased | **574,2** | |
| | Other movements loan to subsidiary | **530,7** | 142,6 |
| | Balance at end of year | **2 831,5** | 1 726,6 |
| | Comprising: | | |
| | – amount owing by the Aveng Limited Share Purchase Trust | **8,8** | 8,8 |
| | – unlisted shares | **2 074,2** | 1 430,2 |
| | – loans | **748,5** | 287,6 |
| | | **2 831,5** | 1 726,6 |
| | *COMPANY'S AGGREGATE INTEREST IN THE PROFITS AND LOSSES AFTER TAXATION OF SUBSIDIARIES* | | |
| | Profits | **197,6** | 385,4 |
| | Losses | **(178,7)** | (5,9) |

A register disclosing full details of all companies in which the group has investments is available for inspection during business hours at the registered office.

| | | 2004 Rm | 2003 Rm |
|---|---|---|---|
| C | *SHARE CAPITAL AND PREMIUM SHARE CAPITAL* | | |
| | *Authorised* | | |
| | Ordinary share capital | | |
| | 882 034 263 ordinary shares of 5 cents each | **44,1** | 44,1 |
| | Issued | | |
| | Balance at beginning of year | | |
| | 396 145 908 (2003: 396 145 908) ordinary shares of 5 cents each | **19,8** | 19,8 |
| | *Balance at end of year* | | |
| | Ordinary share capital | | |
| | 396 145 908 (2003: 396 145 908) ordinary shares of 5 cents each | **19,8** | 19,8 |
| | The unissued ordinary shares are under the control of the directors other than those reserved for meeting the obligations of the Aveng Limited Share Incentive Scheme. | | |
| D | *SHARE PREMIUM* | | |
| | Balance at beginning of year | **940,1** | 940,1 |
| | Premium on the issue of ordinary shares to redeem the debentures | | |
| | Expenses on issue | | |
| | *Balance at end of year* | **940,1** | 940,1 |
| E | *PAYABLES* | | |
| | Trade and other | **4,2** | 2,6 |
| | Accrued expenses | | 9,7 |
| | | **4,2** | 12,3 |
| F | *SHORT-TERM BORROWINGS* | | |
| | Short-term borrowings | **446,9** | 528,3 |
| | Interest-bearing borrowings from various institutions | | |
| G | *INCOME FROM INVESTMENTS* | | |
| | Dividends – listed | | |
| | Dividends – unlisted | **151,3** | 354,1 |
| | Interest – subsidiary companies | **58,2** | 68,3 |
| | | **209,5** | 422,4 |
| | Dividends were received from | | |
| | – subsidiaries | | 178,0 |
| | – associates and joint ventures | **151,3** | 176,1 |
| | | **151,3** | 354,1 |

Interest is charged on short-term loans at normal commercial rates. These loans are repayable on demand, except for the McConnell Dowell Corporation Limited loan which has a duration of 14 months from August 2004.

Long-term loans from subsidiaries are not interest-bearing. No repayment terms have been fixed.

# Notes to the company financial statements (continued)

for the year ended 30 June 2004

| | | 2004 Rm | 2003 Rm |
|---|---|---|---|
| H | *TAXATION (%)* | | |
| | South African normal taxation | **2,5** | 0,3 |
| | Withholding tax | **1,0** | |
| | | **3,5** | 0,3 |
| | Reconciliation of rate of taxation (%) | | |
| | Standard rate | **30,0** | 30,0 |
| | Exempt income | **(28,6)** | (30,1) |
| | Disallowable expenditure | **0,1** | 0,2 |
| | Prior years adjustments | | |
| | Effective rate of taxation for the year | **1,5** | 0,1 |
| | The company has estimated unused credits in respect of secondary tax on companies amounting to R345,6 million (2003: R304,1 million) | | |
| I | *NOTES TO THE CASH FLOW STATEMENT* | | |
| I1 | *Cash generated from operations* | | |
| | Income before interest paid and taxation | **208,2** | 420,4 |
| | Adjusted for: | | |
| | – income from investments | **(209,5)** | (422,4) |
| | | **(1,3)** | (2,0) |
| I2 | *Decrease/(increase in net current assets* | | |
| | Increase in receivables | **(542,8)** | (158,4) |
| | Increase in payables | | 3,0 |
| | | **(542,8)** | (155,4) |
| I3 | *Investment in subsidiaries* | | |
| | Acquisition of subsidiary | **(574,2)** | |
| | Loans (repaid to)/advanced or repaid by subsidiaries | | (173,8) |
| | | **(574,2)** | (173,8) |
| I4 | *Associated companies and other investments* | | |
| | Proceeds on reduction of share capital | | 89,4 |
| I5 | *Cash and cash equivalents* | | |
| | Deposits and cash | **0,2** | 534,3 |
| | Short-term interest-bearing borrowings | **(446,9)** | (528,3) |
| | | **446,7** | 6,0 |

# Schedule of investments

at 30 June 2004

| | Issued share capital 2004 Rm | Issued share capital 2003 Rm | % held 2004 | % held 2003 | Investment value 2004 Rm | Investment value 2003 Rm | Net indebtedness due by/(to) companies 2004 Rm | Net indebtedness due by/(to) companies 2003 Rm |
|---|---|---|---|---|---|---|---|---|
| *DIRECT SUBSIDIARIES, INVESTMENT IN ASSOCIATES AND JOINT VENTURES* | | | | | | | | |
| Aveng Australia Holdings (Pty) Limited | **558,0** | | **100,0** | | **574,2** | | **36,5** | |
| Altur Investments (Pty) Limited* | **2,6** | 2,6 | **45,6** | 45,6 | **101,7** | 101,7 | | |
| Aveng Management Company (Pty) Limited | | | **100,0** | 100,0 | | | **294,9** | 976,6 |
| Grinaker-LTA Properties (Pty) Limited | | | **100,0** | 100,0 | | | | |
| Grinaker-LTA Intellectual Property (Pty) Limited | | | **100,0** | 100,0 | **15,0** | 15,0 | | |
| Grinaker-LTA Limited | **28,7** | 28,7 | **100,0** | 100,0 | **1 410,8** | 1 410,8 | | 217,8 |
| Steelmetals (Pty) Limited (dormant) | **1,6** | 1,6 | **100,0** | 100,0 | **4,0** | 4,0 | **65,9** | 65,9 |
| Trident Steel Holdings (Pty) Limited | | | **100,0** | 100,0 | **0,5** | 0,5 | **(910,0)** | (910,0) |
| Loan to the Aveng Limited Share Purchase Trust | | | **100,0** | 100,0 | **8,8** | 8,8 | | |
| | | | | | **2 115,0** | 1 540,8 | **(512,7)** | 350,3 |
| Holcim (South Africa) (Pty) Limited* (100% held through Altur Investments (Pty) Limited) | | | **45,6** | 45,6 | | | | |

**Its principal business is the production of cement and related materials*

# The group's major investments

| Company | Country of incorporation or registration (if not RSA) | **2004 Group effective % holding at Aveng level** | 2003 Group effective % holding at Aveng level |
|---|---|---|---|
| Altur Investments (Pty) Limited | | **45,6** | 45,6 |
| Holcim (South Africa) (Pty) Limited | | **45,6** | 45,6 |
| Aveng Australia Holdings Pty Limited | Australia | **100,0** | 100,0 |
| McConnell Dowell Corporation Limited | Australia | **100,0** | 100,0 |
| Aveng Management Company (Pty) Limited | | **100,0** | 100,0 |
| Steelmetals (Pty) Limited | | **100,0** | 100,0 |
| Trident Steel Holdings (Pty) Limited | | **100,0** | 100,0 |
| Trident Steel Intellectual Property (Pty) Limited | | **100,0** | 100,0 |
| Trident Steel (Pty) Limited | | **100,0** | 100,0 |
| Avtex Investment Company (Pty) Limited | | **100,0** | 100,0 |
| Grinaker-LTA Limited | | **100,0** | 100,0 |
| Al Jaber-LTA Engineers & Contractors (A.L.E.C.) L.L.C. | Abu Dhabi | **49,0** | 49,0 |
| Allied Grinaker Properties (Pty) Limited | | **39,0** | 39,0 |
| Baba (Pty) Limited | Botswana | **67,0** | 67,0 |
| Bay Stone Sales (Pty) Limited | | **–** | 50,0 |
| Boshard Construction (Pty) Limited | | **30,0** | 30,0 |
| Calta Construction (Nigeria) Limited | Nigeria | **50,0** | 50,0 |
| Contract Mining Services (Pty) Limited | | **100,0** | 100,0 |
| Contractors Properties Finance (Pty) Limited | | **100,0** | 100,0 |
| Empowa Grinaker-LTA (Pty) Limited | | **50,0** | 50,0 |
| Enzimbini Reinforcing (Pty) Limited | | **20,0** | 20,0 |
| Feza Izidingo SCS (Pty) Limited | | **–** | 48,0 |
| Fraser & Chalmers Siyakha (Pty) Limited | | **74,9** | 74,9 |
| Fyfe Swazi (Pty) Limited | Swaziland | **100,0** | 100,0 |
| Grinaker-LTA Construction and Development Limited | | **100,0** | 100,0 |
| Grinaker-LTA Construction Nigeria Limited | Nigeria | **100,0** | 100,0 |
| Grinaker-LTA Construction (Zambia) Limited | Zambia | **100,0** | 100,0 |
| Grinaker-LTA Engineering and Mining Services Limited | | **100,0** | 100,0 |
| Grinaker-LTA International Holdings Limited | Mauritius | **100,0** | 100,0 |
| Grinaker-LTA Maroc S.A. | Morocco | **100,0** | 100,0 |
| Grinaker-LTA Precast (Namibia) (Pty) Limited | Namibia | **100,0** | 100,0 |
| Grinaker-LTA Vuselela Spares Supply (Pty) Limited | | **49,0** | 49,0 |
| Grinaker Pieterse Housing (Pty) Limited | | **100,0** | 100,0 |
| Harpurlaan Belange (Edms) Beperk | | **100,0** | 100,0 |
| Industrial Electrical (Lesotho) (Pty) Limited | Lesotho | **100,0** | 100,0 |
| Jehamo Electrical Contractors (Pty) Limited | | **55,5** | 55,5 |
| KZN Reinforcing and Fixing Services (Pty) Limited | | **33,3** | 33,3 |
| Larcodems (Bahamas) Limited | Bahamas | **1,0** | 1,0 |
| Larcodems International Limited | United Kingdom | **50,0** | 50,0 |
| Lesedi Tracks (Pty) Limited | | **30,0** | 30,0 |
| Lesotho Reinforcing (Pty) Limited | Lesotho | **100,0** | 100,0 |
| Lenings DEC Rail Services (Pty) Limited | | **70,0** | 70,0 |

| Company | Country of incorporation or registration (if not RSA) | **2004 Group effective % holding at Aveng level** | 2003 Group effective % holding at Aveng level |
|---|---|---|---|
| Lot 11666 Richards Bay (Pty) Limited | | **100,0** | 100,0 |
| LTA Construction (Kenya) Limited | Kenya | **100,0** | 100,0 |
| LTA Mozambique Limitada | Mozambique | **100,0** | 100,0 |
| Grinaker-LTA Process Engineering Limited | | **100,0** | 100,0 |
| LTA Zimbabwe (Pvt) Limited | Zimbabwe | **100,0** | 100,0 |
| MacIntosh Property Holding Company (Pty) Limited | | **100,0** | 100,0 |
| Makokwe Grinaker Mining Contracting (Pty) Limited | | **40,0** | 40,0 |
| Marples Holdings (BVI) Limited | British Virgin Islands | **100,0** | 100,0 |
| Marples Trust | British Virgin Islands | **100,0** | 100,0 |
| Marples Property Trust | British Virgin Islands | **100,0** | 100,0 |
| Masizakhe Sitena (Pty) Limited | | **50,0** | 50,0 |
| Megchem Holdings Limited | | **50,0** | 50,0 |
| Menzi Projects (Pty) Limited | | **100,0** | 100,0 |
| Misa Scaffolding (Pty) Limited | | **50,0** | 50,0 |
| Mowcop Boerdery Beleggings (Edms) Beperk | | **100,0** | 100,0 |
| NARE Construction (Pty) Limited | | **100,0** | 30,0 |
| Northern Toll Road Construction Limited | | **24,0** | 24,0 |
| Rebar Company (Pty) Limited | | **67,0** | 50,0 |
| Regent Street Developments (Pty) Limited | | **50,0** | 50,0 |
| Reinforcing and Allied Industries (Namibia) (Pty) Limited | Namibia | **100,0** | 100,0 |
| Reinforcing Fixing Services (Pty) Limited | | **33,3** | 33,3 |
| Ridgeway Construction (Pty) Limited | Botswana | **100,0** | 100,0 |
| Ridgeway Construction (Lesotho) (Pty) Limited | Lesotho | **100,0** | 100,0 |
| RPP Developments (Pty) Limited | | **100,0** | 100,0 |
| Setchaba Conveyor Services (Pty) Limited | | **–** | 40,0 |
| Sivukile Contractors (Pty) Limited | | **29,07** | 29,07 |
| Sizeze Pipes Limited | Swaziland | **100,0** | 100,0 |
| Specialised Road Technologies (Pty) Limited | | **15,0** | 15,0 |
| Steeledag (Pty) Limited | | **65,0** | 65,0 |
| Steeledale Fixing Systems (Pty) Limited | | **32,0** | 32,0 |
| Steeledale Group Limited | | **100,0** | 100,0 |
| Steeledale Monarch Zambia Limited | Zambia | **80,0** | 80,0 |
| Steeledale Mozambique Limitada | Mozambique | **100,0** | 100,0 |
| Toll Highway Development Company (Pty) Limited | | **100,0** | 100,0 |
| The Concrete Construction Company (Pty) Limited | | **100,0** | 100,0 |
| Transfab Engineering (Pty) Limited | | **50,0** | 50,0 |
| Wedelin Investments 46 (Pty) Limited | | **60,0** | 60,0 |
| Grinaker-LTA Properties (Pty) Limited | | **100,0** | 100,0 |
| H.R.N.G. Properties Share Block (Pty) Limited | | **100,0** | 100,0 |
| Ottery Share Block (Pty) Limited | | **100,0** | 100,0 |
| Trojan Share Block (Pty) Limited | | **100,0** | 100,0 |
| Grinaker-LTA Intellectual Property (Pty) Limited | | **100,0** | 100,0 |

# Shareholders' diary

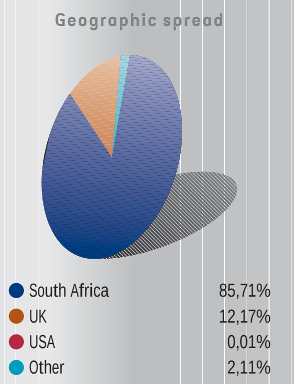
| | | |
|---|---|---|
| *FINANCIAL YEAR-END* | 30 June 2004 | |
| *ANNUAL GENERAL MEETING* | Friday, 29 October 2004 | |
| *REPORTS AND PROFIT STATEMENTS* | **Published** | |
| Half-yearly interim report | Monday, 7 March 2005 | |
| Results announcement | Monday, 12 September 2005 | |
| Annual financial statements | end September | |
| *DIVIDEND* | **Declared** | **Paid** |
| Ordinary shares | Friday, 10 September 2004 | Monday, 25 October 2004 |

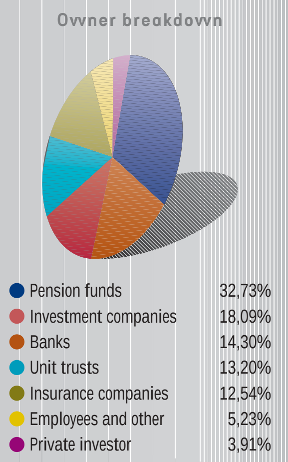
# Shareholders' analysis

## Ordinary shares at 30 June 2004

| Shareholder type | Number of shareholders in SA Number | Number of shares | Percentage | Non-resident shareholders Number | Number of shares | Percentage | Total shareholders Number | Number of shares | Percentage |
|---|---|---|---|---|---|---|---|---|---|
| Public | 4 412 | 279 744 539 | 70,62 | 267 | 56 597 782 | 14,29 | 4 679 | 336 342 321 | 84,91 |
| Directors and officers of the company and its subsidiaries | 7 | 753 861 | 0,19 | | | | 7 | 753 861 | 0,19 |
| Other (anything that falls outside the scope or description of these mentioned above) | 2 | 59 049 726 | 14,90 | | | | 2 | 59 049 726 | 14,90 |
| Total | 4 421 | 339 548 126 | 85,71 | 267 | 56 597 782 | 14,29 | 4 688 | 396 145 908 | 100,00 |

** Based on information provided by the company's registrars*



# Notice of annual general meeting

Notice is hereby given that the sixtieth annual general meeting of members of Aveng Limited will be held at Block B, 204 Rivonia Road, Morningside on Friday, 29 October 2004 at 12:00 for the following purposes:

1. To receive and consider the company's annual financial statements for the year ended 30 June 2004.

2. To re-elect Messrs C Grim and JR Hersov who retire in accordance with the company's articles of association and being eligible, offer themselves for re-election.

3. To consider and, if deemed fit, to pass with or without modification, the following ordinary resolutions:

*Ordinary resolution No. 1*
"Resolved as an ordinary resolution that:

1. the annual fees payable to the non-executive directors be increased by 5%, with effect from 1 July 2004.

2. the additional fees payable for chairing the board, acting as deputy chairman of the board, chairing and serving on sub-committees of the board, serving on the board and audit committees of subsidiaries and attending meetings of such committees, be increased by 5% with effect from 1 July 2004

on the basis that the aggregate payable to directors is to be rounded to the nearest one thousand rand".

*Ordinary resolution No. 2*
"Resolved as an ordinary resolution that all the authorised but unissued shares in the capital of the company, other than the 19 807 295 shares which have been specifically reserved for the purposes of The Aveng Limited Share Incentive Scheme, be and they are hereby placed under the control of the directors of the company who are hereby authorised, as a general authority, to allot and issue such shares at their discretion upon such terms and conditions as they may determine, subject to the provisions of the Companies Act 1973, as amended, and the Listings Requirements of the JSE Securities Exchange South Africa."

4. To transact such other business as may be transacted at an annual general meeting.

Any member who holds certificated ordinary shares in the company or who holds dematerialised ordinary shares in the company through a Central Securities Depository Participant ("CSDP") or broker and has selected "own name" registration, may attend, speak and vote at the annual general meeting or may appoint any other person or persons (none of whom need be a member) as a proxy or proxies, to attend, speak and vote or abstain from voting at the annual general meeting in such member's stead.

Duly completed proxy forms should be forwarded to reach the transfer secretaries of the company by not later than 12:00 on Wednesday, 27 October 2004.

Should any member who holds dematerialised ordinary shares in the company and has not selected "own name" registration, wish to attend, speak and vote at the annual general meeting, such member should timeously inform his CSDP or broker for the purposes of obtaining the necessary authority from such member's CSDP or broker to attend the annual general meeting or timeously provide such member's CSDP or broker with such member's voting instruction in order for the CSDP or broker to vote on such member's behalf at the annual general meeting.

By order of the board

**CM Bishop**
*Company secretary*
Morningside
10 September 2004

**Change of address**
Members are requested to notify any change of address to:
Computershare Investor Services 2004
(Pty) Limited
PO Box 61051
Marshalltown, 2107
South Africa

# Form of proxy

**AVENG LIMITED**

REGISTRATION NUMBER 1944/018119/06 (the company)

for use at the sixtieth annual general meeting of the company to be held on Friday, 29 October 2004 at 12:00

Only for use by the holders of certificated ordinary shares in the company and/or dematerialised ordinary shares in the company held through a Central Securities Depository Participant ("CSDP") or broker who have selected "own name" registration.

Holders of dematerialised ordinary shares in the company who have not selected "own name" registration must inform their CSDP timeously of their intention to attend and vote at the annual general meeting or to be represented by proxy thereat in order for the CSDP to issue them with the necessary authorisation to do so or provide the CSDP timeously with their voting instructions should they not wish to attend the annual general meeting in order for the CSDP to vote in accordance with their instructions at the meeting.

I/We

(NAME IN BLOCK LETTERS)

of

(ADDRESS)

being the holder/s of ____________ ordinary shares, hereby appoint (see note 1)

1. of or failing him

2. of or failing him

3. the chairman of the company, or failing him the chairman of the annual general meeting, as my/our proxy to attend and speak for me/us on my/our behalf and to vote or abstain from voting on my/our behalf at the annual general meeting of the company to be held at Block B, 204 Rivonia Road, Morningside, 2057 on Friday, 29 October 2004 at 12:00, or at any adjournment thereof.

I/We desire to vote as follows (see note 2):

| | For | Against | Abstain |
|---|---|---|---|
| 1. To re-elect Mr C Grim as a director | | | |
| 2. To re-elect Mr JR Hersov as a director | | | |
| 3. Ordinary resolution No. 1 – Fees of directors | | | |
| 4. Ordinary resolution No. 2 – Unissued shares placed under the control of the directors | | | |

Signed at on 2004

Signature

Assisted by me, where applicable (name and signature)

Please refer to the notes on the back of this form of proxy

# Notes to the proxy

1. A member is entitled to appoint one or more proxies (none of whom need be a member of the company) to attend, speak and vote or abstain from voting in the place of that member at the annual general meeting. A member may therefore insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided, with or without deleting "the chairman of the company, or failing him the chairman of the annual general meeting". The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A member's instructions to the proxy must be indicated by the insertion of an "X" in the appropriate box. Failure to comply with the above will be deemed to authorise the chairman of the company or failing him the chairman of the annual general meeting, if he is the authorised proxy, to vote in favour of the resolutions at the annual general meeting, or any other proxy to vote or abstain from voting at the annual general meeting as he deems fit, in respect of the member's total holding.

3. The completion and lodging of this form of proxy will not preclude a member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.

4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, for which purpose seniority will be determined by the order in which the names stand in the company's register of members in respect of the joint holding.

5. The chairman of the annual general meeting may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with these notes.

6. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the annual general meeting.

7. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

8. This form of proxy must be lodged or posted to the company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001, South Africa (PO Box 61051, Marshalltown, 2107, South Africa), to be received by not later than 12:00 on Wednesday, 27 October 2004.

9. **This proxy form is to be completed only by those members who either hold shares in a certificated form, or whose shares are recorded in their own name in electronic format in the subregister.**

# Corporate information

*COMPANY SECRETARY*
CM Bishop

*BUSINESS ADDRESS AND REGISTERED OFFICE*
204 Rivonia Road
Morningside, 2057
PO Box 6062, Rivonia, 2128
South Africa
Telephone +27 11 779 2800
Telefax +27 11 784 5030

*COMPANY REGISTRATION NUMBER*
1944/018119/06

*SHARE CODES*
JSE: AEG
ISIN: ZAE 000018081

*WEBSITE*
www.aveng.co.za

*AUDITORS*
Ernst & Young
Practice number: 918 288
52 Corlett Drive
Illovo, 2196
PO Box 2322, Johannesburg, 2000
South Africa
Telephone +27 11 772 3000
Telefax +27 11 772 4000

*PRINCIPAL BANKERS*
ABSA Bank Limited
Australia and New Zealand Banking Group Limited
Barclays Bank PLC
Commerzbank AG
Crédit Agricole Indosuez
FirstRand Bank Limited
Investec Bank Limited
Nedbank Limited
The Standard Bank of South Africa Limited

*CORPORATE LEGAL ADVISORS*
Taback & Associates (Pty) Limited
Registration number: 2000/010434/07
First Floor
21 West Street
Houghton, 2041
South Africa
Telephone +27 11 483 1571
Telefax +27 11 483 1503

*SPONSOR*
JP Morgan Equities Limited
Registration number: 1995/011815/06
1 Fricker Road
Cnr Hurlingham Road
Illovo, 2196
South Africa
Telephone +27 11 537 5333
Telefax +27 11 507 0770

*REGISTRARS*
Computershare Investor Services 2004 (Pty) Limited
Registration number: 2004/003647/07
70 Marshall Street
Johannesburg, 2001
PO Box 61051, Marshalltown, 2107
South Africa
Telephone +27 11 370 5000
Telefax +27 11 370 5560

GRAPHICOR
31296