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RISK AND REMUNERATION REPORTS

Murray & Roberts Cementation, Arnot Mine, Mpumalanga, South Africa



Risk management report

As a global engineering and contracting group, risk is an inherent feature of our business. The global economy continues to experience periods of uncertainty driven by various factors ranging from the pandemic, geopolitical tensions, climate change and supply chain disruption to rising inflation. In FY2022, the Group continued to trade under these challenging and dynamic conditions. Our market sector, geographic and project life cycle diversification, and diligent risk management have been instrumental in mitigating the impact of some of the risks we face.

Established by the Board, our enterprise-wide risk management framework guides us in mitigating threats to our business and exploiting business opportunities. The Board approves the Group's risk appetite and risk tolerance, and monitors risk exposures which are regularly reviewed and updated. It has established clear governance structures for managing risk and opportunities across the organisation, thereby ensuring that it receives appropriate attention. The Board is supported by the risk and audit committees whose mandates include periodic reviews, guidance and objective challenge to management, and independent verification that risks and internal controls are effectively managed.

During the year, sustainable development continued to feature prominently on the global agenda with many stakeholders calling for visible action on environment, social and governance issues. We continued to align our business priorities with these developments, with an increased focus on ESG in our risk reviews and improvement actions. The ultimate custodianship of ESG lies with the Board which receives regular updates from management on ESG risks, opportunities, and performance.

The Group follows an integrated assurance approach in verifying that risks are effectively managed. Risk Management, Regulatory Compliance, and Independent Assurance (internal and external audits) are the three pillars of the Group integrated assurance framework, which aims to:

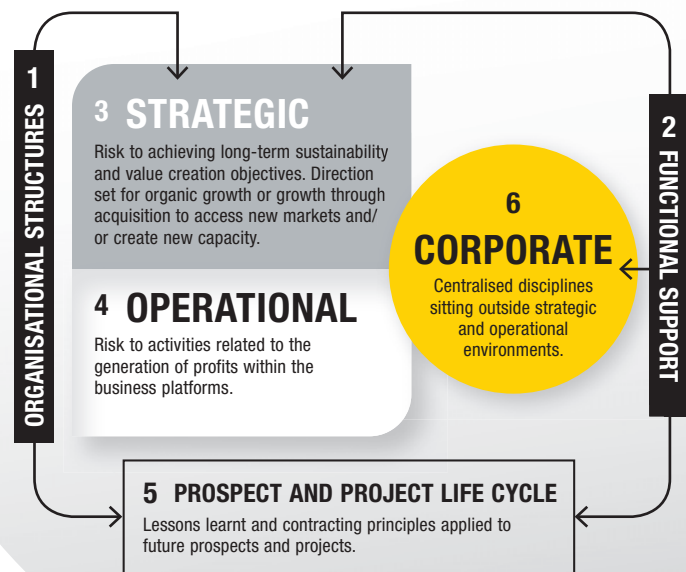
- Align strategy with risk tolerance;
- Improve and streamline decision-making, which improves the Group's risk profile;
- Promote the strategic and coordinated procurement of a quality order book, which contains a known and planned level of risk and an appropriate level of reward;
- Ensure reasonable commercial terms and conditions are contracted based on a predetermined set of acceptable contracting principles, together with the rational pursuit of commercial entitlement;
- Promote rigorous project reviews, and early responses to projects deviating from planned and tendered expectations;
- Promote continuous improvement through the institutionalisation and application of lessons learnt;
- Reduce operational surprises, improve predictability and build shareholder confidence;
- Build robust organisational risk structures and facilitate timeous interventions, to promote long-term sustainable growth; and
- Promote the efficient and proactive pursuit of opportunities.

During the year, sustainable development continued to feature prominently on the global agenda with many stakeholders calling for visible action on ESG issues.

The Group risk management framework

The Group risk management framework sets clear roles and responsibilities and provides management teams with a structured and coordinated approach to identify, assess, address, monitor, communicate and report the Group's risks and opportunities. We implement preventative and mitigative controls to reduce the likelihood and consequence of identified risks and manage potential impacts. However, there remain threats, especially those that are largely beyond our control, such as natural disasters and pandemics, where there is limited opportunity to effectively mitigate their impact. We closely monitor all threats and where possible, have implemented business resilience plans to ensure sustainability of our operations.

The Group has defined four discrete risk environments, namely strategic, corporate, operational and projects, with organisational structures and functional support in place to guide and set direction.



1 ORGANISATIONAL STRUCTURES

To facilitate effective risk management, organisational structures have been established and tasked with risk governance at various levels within the organisation. In addition to Board committees, the Murray & Roberts Limited risk committee is tasked with risk governance at executive management level.

2 FUNCTIONAL SUPPORT

Dedicated risk management support has been created at Group level and within businesses. This includes enterprise-wide risk leadership, risk management monitoring, and risk-based auditing. The Group risk forum, comprising of risk managers from all businesses, facilitates learning and sharing, and adoption of consistent standards and practices across the Group.

3 STRATEGIC RISK MANAGEMENT

Strategic risk is evaluated as a hurdle to achieving the Group's long-term strategy. Management is tasked by the Board to develop, implement and adapt the Group strategy, considering changes in the business environment and subject to the approved risk appetite and risk tolerance levels. Direction is set for organic and acquisitive growth to access new markets and create new capacity. The corporate centre has the oversight role on these risks, which are periodically reviewed by the executive risk committee and reported to the Board. Reviews include consideration of emerging risks in the business environment and their potential impact on the Group.

4 OPERATIONAL RISK MANAGEMENT

Operational risk is a potential barrier to achieving our business plans. Methodologies for identifying, evaluating, mitigating, monitoring, and communicating risk are applied in the operational business environment. Three-year business plans, which consider threats and opportunities, are developed and performance against these plans is reviewed on a quarterly basis. Operational risk exposures typically relate to major incidents and infringement of laws such as competition, company, and health and safety laws, as well as the commercial, technical and logistical aspects of projects. Business platforms have governance structures and systems that ensure that these risks are effectively managed.

5 PROJECT RISK MANAGEMENT

Project risk is evaluated as a potential barrier to delivering contracted scope against cost, time, and technical performance targets, while maintaining industry leading ESG performance. Critical to the preparation of tenders and effective project delivery is the application of three standards, which have been formulated considering past project experience and lessons learnt. These standards are regularly updated to include new learnings:

- Group Schedule of Contracting Principles;
- Group Schedule of Lessons Learnt; and
- Minimum Requirements for Contracts.

All bids submitted are tested against these standards to ensure that risks are appropriately addressed, and past failures are not repeated.

A project management framework sets the standard for project management and provides internal audit with a consistent set of processes and controls against which the delivery of projects is tested.

6 CORPORATE RISK MANAGEMENT

Corporate risk management relates to a range of portfolios and activities within the corporate office, including risk management standards and procedures, regulatory compliance, integrated assurance, business continuity, tax, insurance, crisis communication and other ESG policies, such as the Climate Change Position Statement, Code of Conduct and Statement of Business Principles. Oversight of the three main elements of ESG lies with the relevant Board committees.

Risk management process

The ultimate responsibility for risk lies with the Board, which sets the overall risk appetite for the Group, monitors overall risk exposure and evaluates internal controls. The Group's top risks are regularly monitored and managed in accordance with the business priorities. A competent risk management function is in place to guide and support management in managing risk across the organisation.

We define risk appetite as the type and extent of risk the Group is willing to take in pursuit of its strategic objectives. Several factors are considered in determining the risk appetite in each risk category. The Risk Appetite Statement classifies the Group's appetite for each risk category as low, moderate, high, or extreme according to the following definitions:

LOW

The level of risk will not impede the Group's ability to achieve its strategic objectives.

MODERATE

The level of risk may delay or disrupt the achievement of its strategic objectives.

HIGH

The level of risk will impede its ability to achieve its strategic objectives.

EXTREME

The level of risk will significantly impede its ability to achieve its strategic objectives.

Where applicable, controls are in place to reduce the likelihood or alternatively mitigate the impact of risk events.

Key risk categories

Key risks are those that have a strategic, financial, operational, and reputational impact and include:

Health, safety & environment:

The Group has no appetite for health, safety and environment risk and strives for Zero Harm in the workplace. This is supported by the Group HSE framework.

Financial:

The Group has a moderate appetite for financial risk and is willing to accept risk to achieve its financial objectives. These risks are managed and mitigated to an acceptable level through several controls, with oversight from Group executive leadership.

Legal and compliance:

The Group strives for the highest standards of business integrity, ethics, and governance. It has zero tolerance for unethical behaviour and has a Code of Conduct and several related procedures in place to address this risk. The Group also complies fully in all jurisdictions with regulated requirements to protect personal information.

Project performance:

The Group is prepared to accept a moderate level of risk in the projects it undertakes, to achieve its financial targets. A project management framework, as well as contracting principles and past project lessons learnt schedules are in place and used to mitigate project delivery risk.

Technology:

The Group has a moderate appetite for innovative technology and digitalisation solutions that could add value in meeting its strategic objectives. As the Group formalises and advances its digital strategy, an IT security framework is in place to manage the risk of cybercrime and data breaches.

Strategic risks

Strategic risks relate to our purpose and long-term goals and are managed by the Board and executive committee. Strategic risks include:

- Organic and acquisitive growth;
- New markets and new capabilities;
- Accounting, taxation, banking/bonding and capital allocation; and
- Tracking leading indicators of emerging risks and their likely impact to the Group's long-term prospects.

The Group chief executive and executive committee manage these risks, which are reviewed by the executive risk committee on a quarterly basis and reported to the boards of MRL and MRH.

Operational risks

Project risk is a significant source of operational risk due to the varying complexity, scope, and size of projects we undertake. We have well established processes to manage risks from the early stages of opportunity management, which includes tendering, through the project execution phase, and finally project completion and handover. This includes diligent application of our risk procedures and past experiences to better identify, understand, prioritise and manage project risks.

Project Risk Management

OPPORTUNITY MANAGEMENT

PRE-TENDER	TENDER	AWARD
<p>All opportunities across the Group are captured in the central Opportunity Management System</p> <p>Decision to bid – approval authority lies with operating company managing director</p> <p>Bid considerations include:</p> <ul style="list-style-type: none"> ■ Group's Contracting Principles ■ Group's Lessons Learnt Schedule ■ Minimum Requirements for Contracts <p>If decided to tender, the opportunity is progressed through the OMS</p>	<p>Risk tolerance filters in OMS; contract value, location, contract law, revenue basis, project type, scope of work, client, consultant, and partner</p> <p>Prospect risk rating (Purple, Red, Amber, Green) determines authority level for tender approval and mandate</p> <p>Risk assessments at tender stage used to identify, develop, and price mitigation plans and allocate project contingencies</p> <p>Independent tender reviews of EPC contracts: (internal & external)</p> <p>MRL Risk Committee Review for Red & Purple prospects</p>	<p>If tender awarded, the final contract commercial terms are negotiated within the set mandate provided by the relevant approval authority</p> <ul style="list-style-type: none"> ■ Purple – MRH ■ Red – MRL ■ Amber – Platform CEO ■ Green – Operating company MD <p>Any deviation requires a revised mandate from the relevant approval authority</p>

Risk governance structure: MRH, Risk & Audit committees, MRL Board (Executive Committee) and business platforms' executive committees and operating companies.

PROJECT EXECUTION

INITIATE	DELIVER	CLOSE-OUT
<p>Formal handover from bid team to project team (key bid considerations: scope, tender allowables, programme, milestones, commercial terms, assumptions, and planned risk mitigation)</p> <p>"Know your contract" training for the implementation team</p> <p>Project team presents readiness presentation at the start of the project</p>	<p>Monthly operating company project performance reviews</p> <ul style="list-style-type: none"> ■ HSE performance, financial/cost accounting, schedule, and operational performance, commercial claims, and forecasts to complete <p>Independent in-platform reviews at 20% completion of projects</p> <p>Additional executive interventions initiated for projects showing signs of distress</p> <p>Quarterly platform and Corporate Office project oversight reviews</p>	<p>Residual exposures relating to final accounts and claims, bonds, warranties and patent and latent defects, are formally closed</p>

Taking and managing risk responsibly is central to value creation and the long-term resilience, relevance, and sustainability of the Group.

Regulatory compliance

Regulatory compliance is the second pillar of the Group Integrated Assurance Framework. Application of the Group regulatory compliance framework enables the seamless integration of regulatory compliance (with risk management and internal audit) into business planning, execution and management. The regulatory compliance function provides focus on these risks in line with the Group integrated assurance framework.

As a multinational organisation, we are exposed to extensive legislation in various jurisdictions with varying degrees of complexity. A competent regulatory compliance function is in place to guide businesses towards ensuring that the Group complies, across all jurisdictions, with legal and other requirements that could materially impact its performance and sustainability, whether from a financial, legal or reputational perspective.

The Group employs a structured approach to evaluate potential compliance failures and ensures adequate responses to prevent and, where necessary, mitigate any negative impact. A regulatory compliance plan is set out in the Group's compliance standard, and the Board's social & ethics committee provides oversight through regular reviews of regulatory compliance reports provided by management.

Independent assurance

Independent assurance, the third pillar of the Group integrated assurance framework, consists of two complementary parts – internal and external audit. This function provides an independent and objective challenge to the levels of assurance provided by business operations, risk management and regulatory compliance.

The internal audit function, which reports directly to the audit committee, is well resourced with experienced and skilled employees to carry out its mandate. Its role is to support the Group by providing an independent and systematic approach to evaluating and improving the effectiveness of risk management, internal controls, and corporate governance processes. In executing its mandate, internal audit applies a risk-based approach to identify critical risk management controls that management relies on, and which must be tested and evaluated to provide the Board with the risk management and regulatory compliance assurance it requires to meet its governance objectives.

The audit committee considers and approves the risk based internal audit plan and is regularly updated on audits performed, findings and improvement actions. The development of the internal audit plan includes interactions with the Group risk and legal functions, with specific reference to their respective risk and compliance mitigation objectives and plans. The audit plan also assesses Group wide corporate governance, financial controls, and risk management procedures, as well as specific areas highlighted by the audit committee, Group executive committee and by executive and operational management.

External audit provides independent assurance that the annual financial statements are free from material misstatements and errors and that it complies with IFRS requirements.

Top risks

The top risks that could materially affect our business are summarised in this section.

STRATEGIC RISK

1

Vulnerability to macroeconomic factors

Changes in the global economy have a direct impact on the markets in which the Group operates. Downside risks to the global economy, and therefore to growth prospects in the Group's markets, include low commodity prices, geopolitics and its impact on trade and investments, inflation and increased interest rates, impact of the COVID-19 pandemic, climate change and regulatory factors amongst others. These changes are likely to lead to fluctuations in the Group's order book and projected earnings.

Potential impact

- Lower demand for the Group's services resulting in reduced earnings
- Increased competition
- Increased resource costs
- Liquidity constraints
- Credit risk/rating

Mitigation

- Strategic focus on the natural resources sector, which is underpinned by positive long-term demand fundamentals.
- Broader strategic scope which includes selected high-growth markets to mitigate the impact of adverse cycles in natural resources.
- Focus on client relationships and maintaining competitive advantage to secure negotiated contracts with reasonable terms and opportunities for early contractor involvement.
- Diversification of services across the project life cycle, which includes an emphasis on front-end engineering, and operations and maintenance.
- Investing in long-term investment opportunities that generate constant income at attractive rates of return, either as a project co-developer or operator.
- Partnership with local companies (JVs and contractors) to win work in geographies where this is a requirement.



OPERATIONAL RISK

STRATEGIC RISK

2 Group liquidity

Outstanding payments of claims, project variations and certificated work, project losses and working capital demands may introduce liquidity stress and constrain the Group's ability to meet its liquidity requirements, or to meet its growth targets.

Potential impact

- Negative impact on growth
- Inability to meet financial commitments
- Breach of banking covenants
- Increased cost of borrowing
- Inability to raise facilities with financial institutions

Mitigation

- Ensure quality earnings through a diversified order book.
- Minimise overhead cost.
- Cost discipline and achievement of greater operational efficiency/project performance.
- Securing advance payments on projects and ensuring that projects remain cash positive.
- Vigorous application of *Engineered Excellence* philosophy to ensure project delivery that is differentiated by excellence.
- Securing payment guarantees to manage client credit risk, where relevant.
- Settlement of outstanding claims on projects.
- Restructuring of debt facilities.
- Selling of non-strategic assets.

OPERATIONAL RISK

ESG RISK

3 Health, safety and environmental exposures

Failure to manage our health, safety and environmental aspects could result in major incidents that may harm our employees, reputation and prospects. Many clients require that we meet certain safety criteria to be eligible to bid on contracts and some of the contracts provide for safety performance penalties. Unsafe work conditions and lack of environmental stewardship have a potential to affect our ability to attract and retain talent.

Potential impact

- Loss of life and injuries to personnel and third parties
- Operational disruption
- Financial loss
- Reputational damage

Mitigation

- Continuous evolution and diligent application of the Group HSE Framework.
- People centric leadership and streamlined systems and processes.
- Diligent application of the critical risk management programme.
- Ensuring compliance of HSE processes through regular reviews and audits, and training interventions to improve effectiveness.
- Implementation of the climate change action plan.



Top risks

continued

OPERATIONAL RISK

4 Project delivery risks

Some of the Group's projects are technically complex with long durations that increase risk exposures during execution. This, together with increasing client preference for fixed price contracts, subject us to risks associated with project delays for reasons beyond our control, cost inflation and scope variations for which the financial impact may either not be compensated at all by clients, or compensation may be late, resulting in material financial impact on the business.

Potential impact

- Project schedule and cost overruns
- Penalties
- Loss of profit/earnings
- Reputational damage and inability to win new work
- Reduced cash flow resulting in liquidity challenges
- Erosion of shareholder value

Mitigation

- Strong oversight processes to mitigate the risk associated with an increasing proportion of fixed-price contracts in the Group's order book.
- Early independent reviews on project status to ensure early identification and remedy of potential issues.
- Comprehensive project assurance and performance management tools applied within the business platforms, based on the experience gained from past project losses.
- Project executive dashboards to provide executive management with oversight of key performance indicators on projects.
- Timeous management review, including at Group level, of underperforming projects to revisit and revise recovery plans and programmes.

OPERATIONAL RISK

ESG RISK

5 Covid-19 pandemic

Impacts of the COVID-19 pandemic continue to create uncertainty in our operating environment with some of the consequences becoming clearer as it evolves. The pandemic, together with other global developments have exacerbated risks associated with global supply chain disruption, such as material supply shortages and delayed logistics, hyperinflation, rising interest rates and labour shortages, amongst others. A new variant could compound these challenges.

Potential impact

- Health impacts to workforce
- Operational disruptions
- Shortage of construction materials
- Price escalations
- Clients not paying costs under Force Majeure conditions
- Financial loss
- Liquidity constraints

Mitigation

- Business resilience measures and strict health protocols to protect employees, business partners and communities.
- Vaccination programmes.
- Pursuing commercial entitlement where applicable.
- Strategic procurement and securing early commitments with suppliers and subcontractors.
- Updated contracting principles to include reasonable terms to manage risk exposures.

OPERATIONAL RISK

ESG RISK

6 Cybersecurity

A cybersecurity breach or incident may significantly disrupt our business and/or breach data privacy, business sensitive information and other protected information in terms of various privacy and security laws.

Potential impact

- Operational disruption
- Breach of data privacy and/or sensitive data/information
- Claims and/or penalties against the Group
- Financial loss
- Reputational damage

Mitigation

- An established and independently tested IT security framework.
- Application of a cybersecurity standard which prescribes a minimum set of controls required to provide system and data security.
- Training programmes to raise awareness of cybersecurity threats and latest trends.
- A vulnerability management programme in place to ensure proactive identification and management of vulnerabilities within the IT environment.
- Backup solutions to recover from system failures or breaches.

