Presentation Transcript

29 August 2013

INVESTOR UPDATE

Peter du Toit
Well good morning, ladies and gentlemen. On behalf of the Investment Analyst Society we would once again like to thank Mr Henry Laas and the executives and the directors of Murray & Roberts for hosting us for the results for the year ended June 2013. When I came in this morning I got a warm feeling in my heart because as I looked up I saw on the screen there "Murray wins" and I thought what has Murray & Roberts won now? But it turned out to be Andrew Murray with the tennis. The company is a winner. It is one of the oldest companies in South Africa. It was established in 1902. It was listed in 1948 so it has got the rate distinction of being one of the oldest listed companies in South Africa. It has a market cap today of R10 billion. It employs 25,000 people. And it is a company that has been involved in all aspects of structural and civil engineering in South Africa for many years, but is now entering into becoming a global company with targets set by the year 2020. So it is with great interest we review the past results and we gain an insight into what we can expect in the future. Thank you very much. The protocol is that there is a question time at the end. Please, when asking a question just identify yourself. We would like to know for record purposes from which organisation you are or if you're an independent, and your name obviously. Thank you.

Henry Laas
Thank you very much. That was quite an enthusiastic introduction. We do have vacancies in our business development area, and you're more than welcome to apply. Ladies and gentlemen, good morning and welcome from me. It's really a pleasure to be with you today. We are announcing our results for the financial year to June 2013. I am relieved to stand in front of you to talk about profits this time and not about losses. That is great. It is a very important day for Murray & Roberts. I don't know whether you have noticed, but we have had two announcements today. The one is the results and the second is the category one transaction on the acquisition of the Clough minorities.

I am particularly pleased that I am able to refer to these announcements this morning because we had a bit of a crisis yesterday afternoon. First of all, there was a bit of a problem with the internet on quite a broad base. We had our announcements all lined up to be released on SENS and it almost didn't happen. Just before 18:00 we managed to get our results out. I believe there are other companies also releasing results and their results only went out this morning. However, the category one transaction on Clough was only released at 19:05. So we were really worried. I was wondering what you actually do if the presentation has been laid on for the day? Do you continue with it if your results are not released? I don't understand these rules and I still don't. I must tell you I am very pleased that John Burke was tremendous in assisting us through all of this, together with our sponsor company and some of the executives in the group, Ed and Daniel. This morning 01:00 I received the last email from Daniel. He was liasing with the guys from Sydney because Clough also had to do their announcement in Australia. Thanks for that, Daniel. Please enjoy your hunting trip. I know you are off after this presentation. Enjoy it.

This is the presentation that we will follow for today. We will start off with salient points and then walk through the presentation and get to strategy right towards the end. Before I do so I would like to welcome a few special guests, Sello Mahlape, if I can ask you to stand up please. Advocate Mahlape Sello is our Chairman. She took over from Roy Anderson on 1st March I think it was. Welcome Mahlape. And there are also a number of the Murray & Roberts executives with us today. Thank you for being here.

When we talk about salient features I think it is important to note that Murray & Roberts has gone a long was as far as safety is concerned. We've worked very hard at that. It is something that you cannot do without the support and the commitment of all your employees that work with you. The lost time injury frequency rate at 0.82

is below our target and it is a fantastic result for us, but unfortunately we had two deaths in the group. That compared to the four of the previous year. That is really something that we are very sad about.

The revenue is up to R34.6 billion. Attributable earnings are up to R1 billion from the loss of the previous reporting period. And in that R1 billion is R223 million which is as a consequence of the profit that was made on the disposal by Clough of its investments in Forge. So R223 million of the R1 billion. Headline earnings per share from a loss up to 186 cents per share. The order book, R46.1 billion. Now, you will see in later slides a slightly different number for the order book. That R45.3 billion and the R46.1 billion includes our order book value in our construction products businesses, the platform that we disposed of. So at year end because the transaction was still subject to approval by the Competition Commission it kept the number in the results. There is a number in the R46.1 billion that represents construction products, and that is R400,000. In the prior reporting period in the R45.3 billion there is R1.3 billion I think from construction products.

Net cash is up to R4.3 billion, a strong cash position. Having said that, R2.2 billion came from the disposal process. As you are aware we went through quite an aggressive disposal process. There is still a lot of cash that needs to come in, but of that R4.3 billion R2.2 billion came from the disposal of other businesses. Construction Products, that's the announcement that we've made not so long ago, and we are busy disposing of that part of the group. Having said that, as I've mentioned, it is still subject to Competition Commission approval, but all the other conditions precedent have been met.

And then very important, the Clough acquisition. We have put out an earlier cautionary announcement in this regard for a category one transaction today, and it is require the remaining 38.4% in Clough that we do not already own. So for us it is a major transaction. We are very excited about it. We're very excited about the strategic rationale. We're very excited about the value that this acquisition will bring to Murray & Roberts as a group. We are very pleased to be able to share that with you.

Peter, you mentioned Murray & Roberts being established way back in 1902. This is an interesting slide. If you have time please read through it, and you will see all the interesting events right from the early days of 1902. I want to talk to you about what you see in the yellow block. Although our history is precious to us and it is important for us to understand how Murray & Roberts progressed and developed over time, what is more important to us is our future. and the future that we talk about is the future that started on 1st July 2011. That is when we started with our three year recovery and growth plan for Murray & Roberts.

The 2012 financial year was the recovery year. We have negotiated through that and I think we have reasonably well, achieving all the milestones that we set ourselves to achieve. The financial year 2013 is the first of the two growth years. We are pleased to say that we have returned to profitability and we have a lot of confidence in the future of the organisation. So for us we look at Murray & Roberts and the new future for the group as a future which started on 1st July 2011 with the implementation of the recovery and growth plan.

Now, as a consequence of this strategy we refer to the recovery and growth plan for the group. It's a three year plan. I have shared with you before that the growth that we were planning for the 2013 and the 2014 financial year is not really as much a consequence of us expecting a major boom in all the markets in which we operate. It is growth which will come through a plan whereby we position the group so that we end up after this period with a portfolio of businesses which we believe are aligned with the key target markets, in other words where we believe we can earn a better profit and a better return for our shareholders in the medium to long term.

So it's a plan about acquisitions and disposals. What you see in front of you there is the Murray & Roberts family portrait. We refer to it as a family portrait. That is Murray & Roberts as a group. You can see our values there. You can see our purpose there. You can see our vision there. But what I would like to bring to your attention is you will see there are four operating platforms, no longer five. In the previous presentations we always spoke to you about the five operating platforms in the group. One of them we have disposed, Construction Products Africa. That platform is no longer part of the group.

There are four remaining, and all of them are core, all of them are strategic to Murray & Roberts. And I think an interesting further development is you will see that two of these platforms, Construction Africa and the Middle

East and Engineering Africa we classify as regional operating platforms. It's the first time we are using these words. The region is Africa, the continent of Africa these operating platform focus their business on the continent of Africa. The other two platforms, Construction Global Underground Mining, and Construction Australasia Oil & Gas – which at this moment is Clough – play in the international space, including Africa. They operate globally. So we've got the distinction, two operating platforms which focus on a regional area, being the continent of Africa, and two international platforms which play globally.

And this gives you a little bit more insight into the business model of Murray & Roberts. The four operating platforms I've explained to you, the regional and the international platforms. You can see the market sectors which we are active in is infrastructure and building, the mining space, metals and minerals, and energy which is power, oil and gas. Those are the market sectors which we believe that we want to play in medium to long term, and we think we should be able to earn returns that our shareholders expect from us. Full value chain activities. We start right from the design stage of a project right through to operations and maintenance. So it is the complete value chain of a project development right through to the end.

And then three geographic regions, Africa and the Middle East – and our footprint in the Middle East is getting smaller and smaller relative to what it was before – which we classify as one single geographic reason, the Australasia and South East Asia, and also the Americas. The Americas for now is primarily our mining business, although in the oil & gas space there is also opportunity for engagement in those markets for us.

I would like to get this out of the way right at the beginning of this presentation. We will take questions that you may have towards the end. This entire Competition Commission process was quite embarrassing for Murray & Roberts as a group and for me as a person. We reject and regret what has happened, and as a group we do not want to be associated with any form of collusive conduct in the construction sector. Yes, we have settled with the competition commission and there is a fine of R309 million. We have already paid the first R103 million. Twelve months out there is a further R103 million and twelve months out there is a final payment of R103 million.

These incidents of collusion all occurred over a period of time primarily between 2004 and 2007 in two companies that were acquired in 2006 and 2007. Half of the transgressions occurred prior to the acquisition date and the others after the acquisition date, but all over a period of 2004 to 2007. Six executives in subsidiary companies were implicated. They have all left the group from 2004 to 2010, not as a consequence of this but for other reasons. So we currently have five matters that we still have to settle with the Competition Commission. And you will ask me why we haven't settled it as part of the fast track process. We have tried, but the commission was not prepared to accommodate that. The reason is that four of them have been investigated prior to the announcement of the fast track process, so they treat that as matters to be resolved outside of the process. And then there is one matter which we believe the competition authorities do not have jurisdiction over. It's in another part of Africa. So there are five outstanding matters.

We have engaged with them and we will settle those as soon as we can. We have made a provision for a potential penalty in the June 2013 accounts to cover that potential liability that we have. But I can say that whatever penalty will eventually be decided on is going to be a fraction of the R309 million that we had to pay as part of the fast track process. We have done a lot in the group to prevent this from ever happening again. None of the current executives employed in the Murray & Roberts group have been implicated in collusive conduct. The systems that we have implemented have been twofold. First of all, twice a year starting from myself down into the organisation, up to the executive committee level at each and every subsidiary company there is a declaration that we sign off. It covers all forms of unethical behaviour, collusive conduct, fraud, bribery. So it's a declaration that we sign off. We do it twice a year. We have just done it now in August.

And then part of our systems that we've implemented we expect that with each and every tender that gets submitted that the team that compiled the tenders and the managers that signed off and approved the tender also sign a declaration to declare that as far as that tender is concerned that that submission is not compromised in any way, whether it is fraud, bribery or collusive conduct. We do that on a regular basis. It is already entrenched within the group. I believe that that will really stop any repeat of what has happened in the past.

Safety performance. You've seen the highlight earlier on. This graph shows you how the improvement occurred over a period of time. The blue line represents the lost time injury frequency rate. It is expressed per million man-hours worked. You can see it came down to 0.82 in the previous financial year. Our target is one, so we're very pleased with that improvement. And what you see in the bars is the number of fatalities that we had within Murray & Roberts. You can see two in F2013 compared to four in the previous financial year. I must share with you that shortly after year end in one of Clough's projects in Papua New Guinea a fatal incident occurred one week or two weeks into the new financial year.

These lost time injury frequency rates and the fatality count of two is the lowest ever recorded in the history of Murray & Roberts. In all the statistics that we have, this is the best. We don't know whether further back in the history of the group whether there were periods where the company performed better than this. We just don't know. But as far as we can establish that's the best ever.

This is a very important graph as well. Let me just explain the graph to you. You've seen it before and I think you're familiar with it. The blue line represents diluted earnings per share and the bars attributable earnings. That is for a six month period starting in F2010 right through to F2013. You can see how the company moved into a loss position in 2011. We had losses in 2012, and now we have returned to a position of being profitable. The grey shaded area represents the time that we started with the recovery and growth plan. So F2012 was the recovery year, and F2013 was the first of the two growth years, 2013 and 2014 being the growth years. So we believe that we have successfully manoeuvred ourselves through the challenges that we had to deal with during the recovery period. We are also grateful for the way in which our shareholders supported us at the time. You will recall in April last year – it feels as if it is years ago – there was a R2 billion rights issue. Our shareholders came in and we are still very thankful for the way in which they supported that request from the board to have that rights issue.

On the right-hand side for the 2013 financial year you will see two shades of yellow. The lighter yellow represents the profits from discontinued operations and disposal processes that we are busy with within the group. I must say that the return to profitability is primarily due to the growth that we have in the international platforms, but you will recall in the 2012 year we had significant losses. We still had the losses from GPMOF pulling us down in our South African operations, and that is no longer there. So the South African operations in the 2013 financial year we didn't perform well. Let's be honest. We didn't perform well, but we didn't have those massive losses that we've had in GPMOF. Having said that, the growth really came through from the international platforms.

That's a sign for Cobus to prepare himself because he needs to take over from me and share with you the financials. What you see there is a project we are doing as a part of the Jeffrey's Bay wind farms. There are going to be 60 of these windmills, and that is the foundation that we're busy with on one of these windmills. There are 60 of those and each of them is about 400 cubic metres. Kobus, you got your warning. It's your time.

Cobus Bester
Morning. You will see in the handout it is 100 metres diameter, so it's a huge thing. We never do a dry run. We put these slides together and I see there are 48 slides, so we've got about a minute per slide. So if we run a bit over just excuse us because it has been two or three years since we reported a profit. So give us an hour or two of your time.

Can I just go back to this slide? I'm sure the analysts in the room would try and reconcile that R392 million and the R83 million to the financial statements. If you add those together and compare it to the R259 million that is disclosed in the income statement we have also added for this slide the attributable profit on the sale of Forge to disclose as discontinued. So the auditors will excuse us. This is not an IFRS slide. This is the management slide. So the income statement is correct and it does balance.

So let's move on. So the revenue went up about 9%. And it is really coming from the market in Australia. The Canadian business also increased their revenue. And the decrease mainly from the cancellation of the Aquarius contract. You will see later on that the profit and the revenue in Cementation Africa is way down. And the earlier statement that we had 40,000 people, we had 40,000 people last year but 16,000 worked at Aquarius and they all work for the mine now. So the head count is down to about 25,000. The Middle East has just about no activity left. We're only busy with one contract. We're waiting for a possible award on a shopping centre. But it will never be as big as it was two or three years ago.

EBITDA, a nice turnaround R244 million last year, R2.4 billion this year. And that includes the profit that we made on the sale of Forge. We haven't treated it as a discontinued operation. It was an investment. It was an associate. So the profit is still on the associate line up to date of sale, but when we sold it the profit came through on this line. So depreciation of R700 million is slightly up from last year and intangible assets of R33 million written down.

R358 million loss, R1.7 billion profit, a turnaround of R2 billion. The biggest number there is the R681 million profit before tax and before minority interest on the sale of Forge. We sold our investment in Forge – we had 36% – at $6.05. They are currently trading at between $4.50 and $5. So that was a pretty good transaction for us and the timing was perfect.

The results in the Middle East. Turnaround of R407 million. There is still a loss in the Middle East, and we said last year the loss would be R40 million to R50 million per year. We can have the detailed discussions why we're still there. The GPMOF contract turnaround of R1.2 million, no further losses in GPMOF in the financial year. Henry will cover the claims. We have a very small team in Perth working on the claims. Absolutely no one on site any more. The contract is completed.

Excellent operations results by Clough – excluding of course the profit on the sale of Forge – a R535 million improvement on last year. We received early dividends from our investment in the Bombela Concession Company. Two early dividends were declared, and that enabled us to bring through the income statement the R258 million fair value adjustment.

We will talk about the industrial action and the losses resulting from that just now, but Cementation Africa and SADC compared to last year their results deteriorated by R315 million and R435 million respectively, and I will cover that in more detail just now. The interest is obviously down. We had the rights issue in last year April. We paid back R1 billion of the interest-bearing debt in June last year and another R1 billion during the current financial year. So the long-term interest bearing debt is totally paid off. And of course we sold Forge, which brought in R1.8 billion, and all of that brought the interest charge down.

Taxation. Profits are up. Taxes are up. But we haven't taken deferred tax assets on two areas where there are still big losses. There is still a big loss in the company that we used to build Gautrain, the CJV. There is a big assessed loss. We haven't taken any benefit of the deferred tax asset into account. And then obviously the GPMOF contract made a huge loss, $230 million Australian dollars. We've taken no deferred tax relief on that loss.

Income from equity investments is predominantly Forge. There is a little bit from the Bombela operating company where we have a 23% share. But the R165 million is really the profit on Forge up till date of sale.

Discontinued operations. This is after tax, after minority share, after interest. R259 million. We're going to look at the details just now. We haven't announced in previous announcements how much we received on the sale of UCW, however it is in the financial statements. It was R300 million against the book value of about R100 million. The effective date of the transaction was 1st July last year but all the approvals took a good 11.5 months. So we took the profits up till date of final approval, and then on that date a further profit on the sale of the asset. So the total profit coming out of UCW was R200 million in the current financial year. And as we said previously, the steel, business was sold at book value. Not much to say about that.

Let's move on to the balance sheet. Right at the bottom you can see the net cash of R4.3 billion compared to R1.2 billion last year. In the announcement that we put out this morning we're talking about $442 million cash on the Clough balance sheet. I mean dollars now. However, that does not include their share of the joint venture cash. They will change over to proportionate consolidation on 1st July but up till now they've accounted for joint ventures on an equity basis. So we consolidate another $120 million into our results, hence the $442 million is on their balance sheet, but on our balance sheet we carry about $560 million.

Property, plant and equipment, a big movement there. The biggest movement is to transfer the assets related to Much Asphalt, technically Ocon and Rocla, to discontinued operations. Capex for the year is R1.089 billion. There is a further slide on how much was expansion and how much was maintenance capex.

Other non-current assets, a reduction of R687 million, mainly because of the sale of Forge. And the rest of the R4.1 billion is made up of the investment in Bombela Concession Company of R581 million, deferred tax assets, goodwill – there was a slight increase in goodwill this financial year. Clough bought a small company called E2O and there was a R50 million goodwill attached to that – and then you will see that there is a non-current assets owned by contractors of R2 billion.

As we said last year it is related to uncertified revenues. It is not the uncertified revenues. It is more or less the same amount. This amount includes the subcontractor on the airport contract, Thermo, and it has evened out for us. We have a debit here and we have a credit on the other side. We have no exposure on Thermo, but the long-term portion (and we consider the Gautrain and the Dubai airport as long-term) of those two contracts is included in that number.

The assets held for sale, one should look at the net number less the R666, so that's about R1.1 billion. You will see the bulk of it is made up of the Construction Products businesses. That is technically Ocon, Asphalt and Rocla. That excludes the working capital run-down in Hall Longmore. So we've signed an agreement with Bias [?] on those four companies. We are in the process of disposing Hall Longmore. It will be sold probably in three parts, and then there would be a working capital rundown. We may not sell the working capital. We will collect it ourselves.

We expect to get competition approval for those first four companies within the next couple of weeks. We are told either the 5th September or the 11th September. We hope it is the 5th September because then the effective date is end of September and then the cash would flow. Just to remind you, we sold those four companies for R1.325 billion, of which R1.1 billion will flow helpfully end of September and the balance, R75 million, a year from now, and another R100 million two years from now. And then there is a little bit left in Clough Properties. If you convert that to dollars it is not a lot of money. And it has come down quite nicely over the last 12 months.

This is just how the cash moved from the beginning of the year, R1.2 million, to the end of the year. R4.3 billion. You can see the working capital is sort of neutral. We expected a huge outflow in the Middle East, R500 million, in settling the subcontractors. I think we're sort of halfway there. Not all of those subcontractors were settled, so there will still be an outflow in the new financial year out of the Middle East. We only have the one contract. It is profitable, but the old contract subcontractors must still be settled.

Capex, R768 million expansion, and that's mainly in the mining business. As you win a new contract you have to by new equipment. You take it underground and it never comes up again. You write it off on the contract. Maintenance capex, R321 million. So the capex is slightly up on last year.

Non-core assets, this is where the UCW number is in of R300 million. And then we received part payment of the steel business. We sold the steel business for R330 million. Half of that was received in the current financial year and the other half over the next 15 to 18 months.

Other investing activities. I mentioned the early dividends received from Bombela Concession Company, and also R50 million from Forge. Proceeds on fixed assets is R129 million. Included in the steel assets is some of the properties they will take over, and there was advance payment of R45 million. And then there was one acquisition in the current financial year. Clough made a small acquisition of $10 million in February.

If you look at the revenue contribution over time you can see that Construction Africa & Middle East...and if we go back further I think in 2010 it was close to R12 billion turnover. Here you can see the effect of the lack of enough work for all the contractors. R9.1 billion in 2011, R6.8 billion in 2013. And that includes a small number from the Middle East. Engineering Africa was pretty steady. The bulk of that is the work that we do for Hitachi on the two power stations. Underground mining. This drop-off there is the Aquarius contract. But then we have won other work as well. So R14.8 billion versus R8.5 billion in Clough, slightly helped by a weakening Rand, but a strong performance from them.

If we move on to the more detailed segment reporting, you will see the construction business was sort of a break even in the current year, and last year there was a R320 million profit. This R32 million loss includes the fair value adjustment on BCC of R258 million and it also includes a profit of R50 million from Tolcon. Tolcon has been performing steadily over the last few years and we are very happy with our investment we made a few years ago on buying out the minorities on the Bakwena contract, the N4 running from Pretoria to Gaborone. We have 100% of that company now. So if you then bring that into account, R258 million concessions, R50 million Tolcon, you can see that the construction business lost money.

The bulk of the money was lost on the Medupi contract in the current year, a R182 million loss on the Medupi contract. We looked at the end of site position and we have taken profit based on the assumption that it would still make a profit of 3.2% at the end of site. We haven't taken any upside of the strike actions, the claims and the money we may get back from the client in this financial year. However, we are taking a view that some of it will be recovered in the future and the contract profit of 3.2% will improve. Medupi only worked for seven months out of 12 months in this current financial year. And they are currently on strike. So there is absolutely no ways that you can make money if you don't work for five months out of 12 months. However, we also had issues on two or three building contracts and three or four road contracts. Not big losses, but losses that we had to report.

The marine business had a good, solid performance for the current financial year. The R51 million includes about R25 million foreign exchange profits. So the true operating result is probably half of the R51 million. But a huge turnaround from last year. That R1.1 billion was the losses suffered on the GPMOF contract. And then the Middle East, as I said, for a couple of years we were running with a R450 million loss in the Middle East. We said to you last year that the loss will probably be in the region of R47 million. Most of the old legacy debtors have now paid. There is less than R10 million still to be collected. We don't think there is any risk. There are still subcontractors to settle. We don't think there is any risk on the subcontracts, but there is a cash outflow.

So overall R28 million loss for this business. Now, imagine in the good old days years ago we were saying we should just make 3% in this business. Then from about 2005 to 2008 the construction business moved up, and I think at their peak they may have made 5% or 6%. I don't think we will get to that pretty soon, but the aim is definitely next year to make between 1% and 3%. We're going to look at the order book just now. Our feeling is we have a better order book now than what we had a year ago.

Engineering Africa. This is really the power programme. This is Murray & Roberts projects and the work Genrec is doing on the power programme. You know that we are on cost-reimbursable model with Hitachi. That has worked well for us. If we had not signed that deal two years ago this could have been in a loss situation. You hear Eskom talking about Hitachi and how late they are and all sorts of things. We're not exposed from a cost point of view. We're getting our cost paid and we're getting a margin on top of the cost.

Having said that, it is not guaranteed that you will get all your cost. You can't just go and incur cost and be inefficient. So it is quite a process on a monthly basis to get the cost agreed. Not all the cost is paid, but I think we've done very well in getting 95% to 99% of the cost paid.

Concor Engineering, Wade Walker and Water are sitting in that section. Now, Murray & Roberts Water is a new company that we formed. It picked up the first contract for Gold Fields in Ghana. They've done extremely well on that contract. We see a lot of opportunities in Africa for that business. And there is a good profit that they've made in the first year of operations. Unfortunately Concor Engineering suffered one big loss, a R65 million loss on one contract. Whether it is a good or bad thing, they are actually working for ourselves. So on one of the power stations there is a civils joint venture. We are building the chimneys, and within the chimneys there are steel flues. Concor Engineering is doing the steel flues. There were a lot of scope changes, so they have taken the costs as they incurred them, prepared a claim to our civils company. Of course it was rejected, but there will be an internal process to hopefully get to some landing. Their results should improve. It shouldn't have an impact on group results.

Underground mining, a small loss in the current financial year, a big turnaround from last year. We lost the Aquarius contract. You can see R5.6 billion last year, now R3.2 billion revenue. We had four problematic contracts, and of course heavily impacted by strike actions, not only on current jobs but also delaying some of the new contract awards. Henry will talk about a new contract that we've recently won with De Beers. That job should have started last year August. It is now only starting. So that had an impact on the business. Of the four contracts we would say at three the issues have been resolved, and one is in the process of being resolved.

Australia, slightly up on last year, profit slightly down, but a very good performance. And the Americas a very solid performance. The issue in Canada is workload. Normally we would like to see 75% work secured for the new financial year and Canada is sitting slightly below that,'

All right. So the success story of the year is the result from Clough. They've organised their business into four clear operations, engineering, which is the upfront work, the feasibilities, the pre-feasibilities, the concept designs and so forth. Projects are split in two, but we report it as one. They do capital projects, and that is infrastructure work for oil & gas clients. And then they also do marine work, which is similar to the work that Murray & Roberts Marine is doing. Remember in December 2011 they sold their marine business. But that is the business that had vessels and submarines and they were doing repair work on pipelines in the sea. That is not what we refer to when we say that they are doing marine work. The marine work they are currently doing is civil work for oil & gas clients in Australasia. And then commissioning and asset support, you can see there is a bit increase from 2012 to 2011. We see this part of the business growing tremendously over the next few years. We see that this will perhaps make up more than 50% of revenue and profits in about three years from now.

Once the capital programme comes to an end in Australia – and that continues until 2018 – there is a 30 year life of these gas trains and these things must be maintained. The capital expenditure on a project is about 3% per annum, the maintenance part of it. So over the life of the asset they spend as much on maintenance as they have spent on building the project. So we see a lot of growth in that area. That's why we acquired a very small company. E2O, and hopefully that will grow nicely over the next few years.

The project on sale of Forge. Clough has reported it in their financials as discontinued. We're reporting it under the EBITDA line. Included in that R460 million is an R80 million loss in the fabrication yard in Thailand. The issue has been resolved. The contract has been turned to a cost-reimbursable basis. And we have taken the view that a fabrication yard in Thailand is probably not core, so we will be reporting to you in the next six months and report on the progress in Thailand.

Discontinued operation. I don't want to spend too much time on that. A small loss for the year. There are two contracts that we must run out. It is really just overhead cost and closing-out cost. There is nothing to be concerned about. Same with the Clough marine business that I mentioned and the properties that they have left. That s a nothing number. Then included in this R387 million is the profit on the sale of UCW and the operational results of UCW. So if you strip that out and you get to a profit after tax number for Ocon and Hall Longmore, and divide that into the selling price – and we've told the market that we will get book value for Hall Longmore, which is more or less R500 million – we would bring in R1.8 billion on the sale of those five business. And you can calculate the PE ratio. We're quite happy with the deal we've done.

Last year in the annual report for the first time we published our investment and margin aspirations. Now in this current financial year we put it down as a green, but that includes the sale of Forge. So it has been slightly padded with the sale of Forge, so maybe it should have been a light green and not the dark green.

The interest-bearing debt. One of our non-executives asked us yesterday about the issue of our cash positive situation. How can you have gearing? We look at gross gearing here. So we will be over that, but again I don't think anyone is too concerned if you're over 20% or 25% as long as you can explain what you've done with the money. Two or three years ago we borrowed money to pay for losses. This time around we are borrowing money to buy businesses.

Return on equity is slightly under 17.5%. And return on capital employed, our [unclear] is in the region of 12.5% or 13% and we were over that, we were cash positive. Unfortunately total shareholders return over the last 12 months we measured ourselves against a basket of other companies. They were 3.5% up and we were 5% down. Hopefully that will be short-lived.

Henry Laas
Thanks Cobus. This is a very recent photograph of Medupi power station in July 2013. This is boiler six. They started with boiler six, working back towards boiler one. I'm not sure which of these boilers went up in a record time. Boiler four and five. And it went up in how many weeks? Ten weeks. Hitachi tells us nowhere in the world were they able to put a mainframe up in ten weeks. So the guys are doing very well when they are working. The problem is...that's the problem. They don't work too often there, but when they do work, they work well.

This is very similar to an earlier slide which Cobus has shown you, but this time around we are looking at the order book. I don't' want to spend too much time on it other than to say that in Engineering Africa you will recall the drop from 2011 to 2012 was as a consequence of the re-scoping that happened with Hitachi after that transaction with them was concluded. Global Underground Mining, the drop 2011 to 2012, we had R7.5 billion in for Aquarius. It was always three years of order book that we carried at about R2.5 billion per annum. That was the drop there. We've got strong year on year growth in Construction Australasia, and that purely reflects the order book of Clough. So overall R45.7 billion compared to R44 billion in the previous year. You will see these numbers are slightly different to what you will see in the report, and it is purely because we stripped out the order book contribution from Construction Products Africa which is no longer part of the group.

You have seen this also in previous presentations. What we are trying to do is give you a bit of a feel for the exposures we have within the underground mining business. And on the far right-hand side you see the 2012 split between commodities, and in 2013 is the one just to the left of it. Predominantly gold and copper is about 70% of our underground mining business. Diamonds are only reflected at 6% there, but the project that Cobus referred to, the Venetia diamond project, has been awarded to us. The value of the work is in the order of R7 billion to R8 billion. The project will most likely be awarded in chunks and not as one big award of R7 billion to R8 billion. The civil work has commenced. We can only take over at the point when the box cut is ready for the decline works to commence. I spoke to Chris Shepherd this morning and we think it is going to be very late this year or early in January that we will start with a lot of activity on the construction side.

This is just a breakdown of the order book for the various platforms. You can see the R45.7 billion in the current year compared to the R44 billion of the previous year. But what you do see on the right-hand side is the timing in the order book. Right at the bottom, in 2014, R27.1 billion, which means at the end of June we had R27.1 billion secured for the current financial year. That is about 80% of the revenue we did last year. So we should be able to grow the revenue in 2014 relative to what we reported for 2013.

With the acquisition of the Clough minorities and the growth which we anticipate in the oil & gas space we do think that the two international platforms will in time contribute at least 75% of Murray & Roberts' EBIT. The regional platform will contribute about 25%. So that's the split relative contribution to EBIT from these various platforms.

Market prospects in South Africa with Construction Africa & Middle East we keep flat. There is not too much activity. We are actively engaging Africa to try and get opportunity there, and I will get to a slide on Africa. On the Engineering Africa side you will say to me but why is that arrow pointing up, because what's going to happen after the power programme. We know that the power programme will run out, and it's a big gap for us to fill when that does happen. Coal 3 has been approved. We're not sure about the timing of that. But that arrow there pointing upwards primarily refers to the activity that we are undertaking outside of the power programme and the way we are building that platform.

You can see the margin aspirations there. Cobus referred to the business in South Africa, Construction Africa & Middle East. If we can do between 1% and 3%...I'm going to ask Jerome. Where's Jerome? Jerome is right in the corner at the back. Jerome is the platform executive responsible for that business. Next year we will ask him to tell you whether he managed to get to 3%. Good luck with that, Jerome. The other platforms we believe 5% to 7.5% is a sustainable margin range where we should be and how we should be performing.

Market prospects. I'm not going to talk through it point by point, but you can read it in your own time. Construction Africa & Middle East, what we are saying there is that we expect this market to be pretty flat and that this platform will only be marginally profitable, 1% to 3%. If we can get to 3% that will be a good performance. The engineering platform is doing a lot of work into Africa. Cobus mentioned the early success with the water project in Ghana. We are excited about opportunities in that area. We know the mining business is a cyclical business, and we know we are in a difficult period now. Long term we believe it is an important sector for us to be in because long term the overall growth or trend line should show positive growth, although we understand there is going to be cyclicality around that growth line over time.

And then Construction Australasia, Oil & Gas and Minerals. That's Clough and the opportunity that we see for Clough. The final point on that slide, you will see reference to Clough Coens. Coens is a company in Korea that Clough entered into a joint venture with. Clough is the 55% partner in this joint venture. What they basically do is they do commissioning of units that get built into LNG plants and LNG facilities. We are excited about the opportunity. It is starting from a low base but it will contribute significantly into the future.

Cobus mentioned this cycle of capital spend. We think the cycle of capital spend will run for another two years and then it will drop off. There is uncertainty in the market as to when it does start to taper off how severe that will be. We met with people in Australia last week Monday, and it is true. The greenfields capital spend projects will probably start to taper off. But Australia has got huge gas reserves, and the projects that are currently being built people envisage there will be a lot of capital spend in the future into brownfields expansions. Some of these plants have got four or five trains. People are talking about adding an extra train, adding an extra two trains over time. So there will be capital spend. It will be brownfields. We are not certain yet how severe that drop will be, but

Cobus also explained to you that we are very excited about the opportunity around maintenance and asset support work, the business that has started to contribute nicely in the 2013 financial year and we think is going to play a significant role in the future of Clough's business as far as Australasia is concerned. Remember Clough is part of our international business, so they build LNG facilities or do infrastructure work on LNG plants. There is huge opportunity in Africa along the Mozambican coastline. That is one of the reasons why we felt it was a good idea to acquire Clough, and we will get to that a bit later on when I share with you a few thoughts about the investment in Clough.

In the engagements that we have with analysts and with shareholders these are the type of questions that they ask, and these are the things they say they are concerned about. The South African operations, the fact that it is only going to be marginally profitable short to medium term. It is a concern and it is an element of uncertainty. Competition Commission. People ask us about the potential of civil claims. There is a potential of civil claims. If you ask me if I think it is a big risk, I say no. Why do I say no? Because I know the projects we have been implicated on and what actually happened on those projects. I'm not concerned about that we're going to have a big exposure in that area. Major claims. We are as frustrated as our shareholders are. It's a long process. But I can assure you as time moves on it's not that we are losing any faith or any confidence. We are actually gaining confidence in our ability to resolve those claims successfully.

Gautrain water ingress. You're aware of this arbitration that we have. The ruling will be in November, and then we will know. Is it a further cost liability from our side or not? We will see. The South African labour situation. It is a big problem. Cobus mentioned earlier on that if you look at the variance in the South African business it is about R700 million down year on year. Of that R700 million you can say R350 million is labour. I think Aquarius must be about R150 million to R200 million. And then the other odds and sods, the smaller projects which Cobus spoke about. So the lion's share of that is really the loss of the Aquarius project, and then the R350 million in the labour situation.

And I am concerned about it. Medupi is on strike today. As you've heard the construction sector is on strike. On Monday this week we are building here at 102 Rivonia and our people were working. Three busses arrived, broke through the security gates, went in there, and seven of our people ended up in hospital. So nobody is working on that site. So the labour situation is really, really critical. It's very difficult for construction companies in South Africa to build projects safely, on time and within budget in the current scenario of labour uncertainty.

The DSE [?] claim. You've heard us talking about it. You may hear Avenge talking about it. The DSE claim relates to a claim that DSE – which is their steel fabrication company – has against Genrec and it relates to a period before the Hitachi settlement was entered into between Murray & Roberts and Hitachi. We don't have a financial liability as far as that is concerned. We have said it many a time. That is the fact. That claim has not yet been resolved. It is in arbitration. Regardless of what the outcome is there is no financial obligation as far as Murray & Roberts is concerned.

And then the investment case. For a long period of time people said tell us about your strategy, tell us what is happening with Clough, are you going to sell Clough, are you going to buy out the minorities? What's your plan? And we always said that we can share it with you when we're in a position to share it with you. So there will be a slide on our strategy, and hopefully that will clarify a lot of the questions that many people have raised over a period of time. There are two slides, one to explain the major claim situation and one that will talk about the strategy.

Very briefly, the Gautrain claim. Commercial close-out we're looking at 2016. It is taking a long time. The parties have now agreed to go through a process of separated issues, which means that you take the legal arguments and you resolve the legal arguments before you get into a debate about the quantum of the claim. Our Chairman is an advocate and she says it's a good strategy. We believe her and we are happy with that. But it is going to take until 2016 to get that result. The water ingress, in November, in two months time we will know what the position is.

And then Sandton cavern [?]. We never reported on Sandton cavern. The Sandton station was originally planned to be built through a cut and cover plan. In other words, you open it up from the top, and you close it in again and then you have your underground station. It was then converted to a cavern scenario so the excavation was done from underground. That resulted in a dispute because the civil joint venture, the CJV that Cobus refers to, and the Gauteng government. That dispute ended up with them claiming against us, saying that the cavern is the cheapest solution. And we say the cavern was a more expensive solution.

We had a favourable ruling, and the favourable ruling says there is no claim against us, we were right and we need to prove a quantum. So we don't know what the quantum is. We're working on it. It can be anything from zero to about R300 million. We just don't know. It all depends on the strength of our case. We haven't taken it to book. It is not part of the uncertified revenues. To us it is an important development that we had that favourable arbitration ruling.

GPMOF. In financial year 2015 we expect to have commercial close-out. We did report previously the early wins that we had in the interim arbitration awards in principle. And then we had an interim ruling on the quantum, basically defining or stating that the quantum is not limited to the original claim that we have submitted and it is actually broader than only the impact on the design that we've built, but also the consequential impact on other parts of the project. The respondent was not happy with this. They took it to the courts in Australia. We lost six months in this process. It was heard in court. They didn't perform very well in court. And before the judge could pass the ruling they withdrew. So we are back where we were six months ago, in arbitration, trying to get a quantum established.

And then in Dubai International Airport we've now got to the point where we understand there are actually two respondents to our claim. As far as the original contract is concerned it is one respondent, and as far as the supplementary agreement is concerned – an agreement which was entered into later on during the construction phase – there is another respondent. For us it is a tricky matter to deal with. Having said that, we are confident about our entitlement. I'm starting to get the view that this is probably an area where a negotiated settlement is going to result in a sooner outcome than what court action would. So we will look into that and we will see how we can close that out, because we're also getting tired with trying to deal with the issues of the past. It is R2 billion. We can't walk away from it. It is R2 billion of uncertified revenues. And if we bring that in it's the money that the shareholders gave us in April last year with the rights issue. So we're not going to let go of this. We are going to work on it and we're going to make sure that we get an optimal outcome,

The recovery and growth plan. Getting back to the strategy, just in a nutshell, during the recovery year we said that there were certain things that we had to do, and we had to develop the growth plan during that period. We didn't see any structural changes or any significant strategic changes for the group during the recovery year. It was about liquidity, capacity, management structures. But what also happened during that period was the sale by Clough of its marine business and also the sale by us of our Johnson Arabia business, which is a small business we had in the Middle East.

But the plan for the growth years is basically to focus on the core competence of engineering and construction and to bring our focus back to those disciplines. We've identified the energy and metals and minerals market as the two target markets. We have said we will like to diversify our revenue base. It is a disposal and an acquisition plan. At the bottom of the slide on the left you will see the growth year, which is the financial year we are reporting on. Those were the businesses which we have disposed of. And in the current financial year it is the acquisition of the Clough minorities. That is in progress. But you will see there is also an engineering business in Australia which we would like to acquire. That is under consideration. There are no commitments at this stage. That is what we are thinking about.

So a recovery and growth plan. We are finding ourselves now in a space where we need to get our mind around what happens beyond this three year plan, and we will share that with you in due course. Clough. Why did we buy Clough? You saw Clough's performance. You saw Clough's cash generation. And acquiring Clough 100% will give us access and full control over the operations, cash flows and the strategy for this group. It is in the oil & gas space. It is one of the target markets for Murray & Roberts group. So it is getting us greater exposure to a target market. I mentioned earlier on the opportunity around the African coastline, more specifically Mozambique, but there is also opportunity in Tanzania. Are there any people from Standard Bank here? They shared some plans with us the other day. There is also lots of activity in oil & gas happening around the South African coastline. So we believe with this acquisition of Clough Murray & Roberts is very well positioned, together with Clough, to benefit from that opportunity in an optimal way.

Immediately profits per share accretive. 22You will see when you go through the category one announcement there is a pro forma financials in there and you will see what the financial benefit is. Low execution risk. The best acquisition you can do is acquire a company that you already own 60% of. We understand the business. We've been in this business for a long period of time. It's not a new business that we're entering into that we do not understand. Low execution risk.

Category one transaction. The value is $1.46 per share, $1.32 for the shares we will buy and 14 cents, Australian cents, for dividends. We signed yesterday the binding agreement, the scheme implementation agreement, and it was as a consequence of that that the category one transaction was announced today. The independent directors of Clough obviously have to support this transaction, and we do have their unanimous support moving forward.

The financial impact. Diluted earnings per share up 26% to 309 and the HEPS for the previous reporting period as you know was 186 cents per share, up 16% to 216. After this transaction Murray & Roberts' debt position is going to be roughly the same. The cash that will flow on this transaction will flow towards the end of the year, after the cash that will come in as a consequence of the disposal of the Construction Products business. So we are quite comfortable that the funding structure for this acquisition is sound and that we will do well.

A number of conditions precedent. Again I don't' want to work through those. It is pretty standard, but it will require shareholder approval, but Murray & Roberts and Clough shareholder approval. And we will do that. You can see the indicative timetable there of when the communication to the market will happen, but in the middle of December is the implementation date of this acquisition. And on our web there is also much more detail on this.

Getting to the end of the presentation, just a few words around Africa. Since we decided on the Africa plan we've established an office in Ghana, we established an office in Zambia and there is an office that we are busy establishing in Mozambique as I speak. So the plan is basically a hub and spoke plan from these offices that we've established to work in the host country but also into the neighbouring countries. And Kenya is in blue there. What that really means is it's still a target area for us to establish a presence. We are not there yet, but in time to come we will definitely have a presence in Kenya.

And this is a slide that you've seen before, and ladies and gentlemen, it brings me to the end of the presentation. It is open for questions now. Apologies, I think we have taken ten minutes longer than what was scheduled. If there any question questions please feel free to ask your questions. Please speak up. It is an auditorium. If we can't hear you clearly I will repeat the question. There is a question right in front here.

Ruby Rosenberg
Mr Laas, I'd like to commend you for having published the letter of apology that you did about six weeks ago. If nothing else it says something for the reputation of Murray & Roberts. I want to come to the slide on the Competition Commission and certain statements you've made. You said R103 million had already been paid, and further that a provision had been made for the four remaining South African issues that still have to be settled. I'd like to know what the amount is of that provision, and where these two amounts are included in the income statement.

Henry Laas
Okay. Firstly, there are not two amounts in the income statement. There is only one. I can't tell you what the provision is because if I do it prejudices our position as far as the negotiation of the settlement is concerned. So unfortunately I cannot disclose the amount. But as I have said, if you look at the R309 million that we've paid as part of the fast track process it is significantly less than the R309 million. The full R309 million has been accounted for in the June numbers, so we are not carrying any cost as far as that is concerned into the future. It's purely cash. The first cash payments went out and the other two cash payments will follow.

Cobus Bester
Can I just add to that? We made a provision in the previous financial year for the bulk of it, but we had to top it up in this current financial year with what we were short on these five outstanding projects.

Ruby Rosenberg
You mentioned that there was one case out of South Africa which you were not going to agree can be heard by the Competition Commission because they have no jurisdiction. What I did not hear you say was that Murray & Roberts were blameless in the issue. If there is an admittance of any sort that Murray & Roberts was guilty why not pay and get it done?

Henry Laas
As far as that one is concerned, it is a jurisdictional issue, but one of the projects we have included in the 17 matters that we have settled actually was in the same country. And we believe that is almost double counting. We believe that those two incidents are related. And we have settled the one as part of the 17, and the other one we say no. we also believe there is a strong argument around jurisdiction. But I accept your point there.

Cobus Bester
On this particular one we don't have any concrete evidence that our employees participated in any wrongdoing. It is through the submissions of others that they have been implicated. They deny that.

Ruby Rosenberg
My final question please, if you don't mind, concerns the increase in cash and cash equivalents. The increase is in the order of R2.9 billion. The cash flow statement accounts for an increase of approximately R1.8 billion. So therefore I'm looking for a further R1.1 billion. Now, I've gone over all the components in your waterfall chart and I've accounted for everything in the cash flow statement except the item EBITDA cash items. So I'm still looking for R1.1 billion. Where do I find it?

Henry Laas
I think last year you spent good quality time with Daniel at the back. Maybe he can answer the question after the meeting. He can show you how it is made up.

END OF TRANSCRIPT