Conference call transcript

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ANNUAL RESULTS

Ed Jardim
Good morning and welcome to the Murray & Roberts annual results presentation. My name is Ed Jardim. I'm the group Communications Executive of Murray & Roberts. Welcome to our results presentation. Just before we start, a Stop.Think.Act.24/7 safety moment and some housekeeping. We are not planning an emergency evacuation today, so if you do hear an audible alarm it is a real evacuation. You have two options to evacuate this floor. Out this door to the left there is an emergency evacuation door here. There is a box with a glass in it. Please break the glass. The door will release. Make your way down the stairs to the ground floor, out and around the building and out to the public parking space across from the building where our assembly point will be. The second option is out these doors to the right. We've got stairs on either side of the lift. Please make your way down those stairs to the ground floor and out the main entrance where you came in this morning and to the public parking space for the emergency assembly point.

From a housekeeping point of view, it is a non-smoking building. We have bathrooms here to the left and also next to the stairs. Arthur from the IAS could not make it on time. He is stuck in traffic. So on behalf of the IAS I would also like to welcome you. Just to go through the programme for today, we are going to have our Chief Executive and the CFO present the results for us. After that we're going to do a results-specific Q&A. Followed by that, which is new this year, we're going to do a platform Q&A or operational Q&A. various platform executives join us today. If you would like to stay behind for the platform Q&A we are going to have a Q&A with our operational platform executives as well.

I think let's get started then. Thank you.

Henry Laas
Morning and welcome to Murray & Roberts. For those of you who had some difficulty in the traffic, apologies for that. It is very nice for us to receive you in our corporate office. It's a fantastic facility. This 9th floor is where we present our leadership training in the group, and it is nice to receive you this morning.

We will be talking about the results for the year to June 2014. Over the past few years we've been communicating a lot with you and sharing information with you about Murray & Roberts' recovery and growth plan and the implementation of this plan. And I think today we're closing that book. It is year three. We are talking about the results to June 2014, which is the last year of the recovery and growth phase. We will give you some insight into the new strategic future of Murray & Roberts. We are here today to review our results, so let's do just that.

Attributable earnings are R1.3 billion. Our diluted continuing headline earnings per share closed on 205 cents and a dividend of 50 cents for the year. Cash at R1.8 billion is down on what it was last year, but you will recall we have invested R4.4 billion when we acquired the minority stake in Clough last year. The order book is R41 billion. It is down, but we will explain that in a bit more detail a bit more later.

Claims. We've managed to settle the GPMOF claim and recorded R323 million additional income. What this really means is that the uncertified revenue amount that we had in our accounts previously has now been certified, and over and above that there was income of R333 million. Unfortunately that did not flow through to the bottom line because we also had to create certain provisions within the group, and we will give more detail on those provisions.

Major transactions. We've acquired the minority stake in Clough for R4.4 billion, and we have also concluded the disposal process of our construction business. There was a lot of corporate activity in this past year, with Clough and Construction Products being the two main activities.

This morning when I look at these results in the newspaper and see how it actually printed I said to myself, well, it is a reasonable set of results. And I hope that you will agree with us. So we are pleased to share these results with you. It is a lot easier to talk to you when we've got decent results than it is to face you when the results are not that good. So we are very pleased with the results.

If you look back over the past five years what you see on the right-hand side represents 2012, 2013 and 2014. This is the period of the recovery and growth phase in the history of Murray & Roberts. Looking at attributable earnings and diluted continuing HEPS, the yellow represents continuing operations and the grey represents contributions from discontinued operations. Looking forward we expect that you won't see such a significant contribution from discontinued operations because most of the corporate activity and the disposal process that we embarked on during the recovery and growth phase is now behind us. And what you see there in the line represents the headline earnings per share. And 205 cents for the year under review represents a 67% growth on the previous financial year.

Safety in Murray & Roberts has come a long way, as you can see on this graph. It is a very important consideration in all the decisions that we take within Murray & Roberts. Our lost-time injury frequency rate at 0.8 is a record low for Murray & Roberts. It has never been as low at 0.8. Our target for the year was 0.9. We came in below the target. And the target for the new financial year is 0.8. We are very pleased with this result. This is a group result. When you look at the platform results obviously it is different for the various platforms, but in a group context it is 0.8.

I can assure you that for each and every platform when you look at their results relative to the industry in which they operate it is a leading performance, and we are very pleased with that. Unfortunately we did have four fatal incidents for the past year. And we worked very hard to prevent that from occurring in the business, but we have four fatal incidents. I am very disappointed about that. Hopefully the new financial year will be a year without any fatal incidents.

These results are not just a coincidence. It requires hard work. It requires significantly leadership effort to achieve safe outcomes in a workplace. And we are really committed to our zero harm through effective leadership programme. We are committed to our visible felt leadership initiatives. And we have in the past year in our South African operations implemented the Philisa health and wellness programme for our employees.

I want to very briefly summarise the recovery and growth phase of Murray & Roberts' history, and then I will give you some indication of the new strategic future. In financial year 2012 you will recall from the graph I showed you earlier on we had huge losses in financial year 2011. In financial year 2012 we had to do a lot of work to reorganise and re-energise the organisation. The morale was low considering the difficult financial circumstances under which we operated, so we had to do a lot of work focussing on that.

We had to improve the liquidity within Murray & Roberts. At this stage we had a net debt position of R5 billion. We had a net cash position of R1.8 billion. We had to realign Murray & Roberts. The idea behind that was to bring focus into the organisation, which we felt was necessary at that point in time. We had to develop a growth plan for Murray & Roberts. And you will see on the slide at that stage we said we have to come up with a strategy for Clough. Should Clough be part of the group? Should it not be part of the group? Should Forge be part of the group or should Forge not be part of the group? So there was a lot of uncertainty at that stage and we had to get some clarity around that strategy.

On the right-hand side of the slide you will see Murray & Roberts' family portrait. This is basically what we developed during that recovery year. And that is a slide how we present to the world Murray & Roberts. It was the first time that we presented back then the concept of the operating platforms. And then we had five operating platforms within Murray & Roberts. We see Construction Products on the far right-hand side. At that stage it was still part of the group. The values are defined, the purposes defined and the visions defined on this slide. And that brought a lot of focus into Murray & Roberts and its people.

Two years later at the end of financial year 2014, the year under review, if we just look at some of the objectives that we have set ourselves and how we have performed relative to those objectives, the first one was that we had to enhance our shareholder value. It was about the share price and the growth beyond that. We don't think we have really yet achieved that, so we gave ourselves an amber rating. A lot of work is still required to get the values back to reflect in our share price.

We wanted to get to a point of dividend payments again, and we are very pleased with the fact that we were in the position at the end of the year to declare a dividend for the past year.

Selective market segment repositioning. What does that mean? What it effectively means is we looked at the portfolio within Murray & Roberts and we felt that some of the businesses within the group did not lend itself to future growth and it did not fit into the market segments that we felt were important for the long-term future of the group. So that was about the efficient process to decide which businesses to sell and which businesses to retain within the group. And I think we have achieved all the objectives that we set ourselves, and we have given ourselves a green rating for that.

Our offshore revenue base part of the plan was to grow the international part of the group, and I think we have achieved that. Today 80% of revenue and profits are earned offshore.

Operational and contractual management excellence is important to us as a group. I think we have come a long way as far as that is concerned. We don't have any crisis with projects that are under stress. You will always have in a construction company a few projects that find themselves in a difficult space, but the results that we report for the year up to June 2014 include the impact of those projects in those results.

And then enhance the attraction, attention, performance and diversity of our people. No organisation can be successful unless it is successful on the people side of the organisation. A lot of work has gone into that. I think we have achieved a lot of the objectives that we set ourselves, and we gave ourselves a green rating.

So looking back over the three-year period, this is a slide that demonstrates to you the corporate activity that we've participated in. In November 2011 there was a R4 billion debt package that was raised. Not long after that in March 2012 a R2 billion rights issue. And then we disposed the Clough investment in Forge – it was R1.8 billion – in March 2013, the prior financial year. In October 2013, the current financial year, we disposed of the Construction Products business. All that R2.8 billion hasn't come through yet. There is still some cash to flow later on. Clough became a wholly-owned part of the group, a R4.4 billion acquisition. And then we disposed of Hall Longmore earlier this calendar year in March. And we have reached the end of that road.

You will recall that we have put out an announcement recently that we are in the process of disposing of our investment in Tolcon which excludes the concession businesses. And I think we have now received competition approval, so this transaction will go through. That will basically conclude the disposal initiative that we've embarked on over the past couple of years. So that is now behind us and we've reached a point where do we believe that the portfolio of businesses within Murray & Roberts are the businesses we are comfortable within into the future.

When you look at the investment margins we've communicated this to you before. How did we perform relative to the investment margin and aspirations that we set ourselves? This result here is for the financial year 2014. So margin, we want to be in the 5% to 7.5% range. We came out with a 4% margin, so we are not there yet. It is a red rating. We didn't achieve that. Gross gearing, I want to talk a bit about gross gearing. This is a measure that we decided on when we first defined these investment margins for the group. At that stage we came up with gross gearing. Very few companies expressed their gearing ratio as gross gearing. And when you look at Murray & Roberts' net gearing I've said earlier we've got cash of R1.8 billion, which means our net gearing in the group is nil. But gross gearing is 42%. That is a consequence of a number of things.

Our equity in the group has reduced, and this was communicated and explained at the half year stage as a consequence of the acquisition of Clough where the goodwill associated in the transaction was debited against equity. So the consequence of that is because the equity reduced the percentage went down. When you look at return on equity, 19%, which is above the aspiration of 17.5% through the cycle. A return on invested capital employed, 22%, a very good return. Positive cash that was generated within the group. And return on net assets 77%.

And our performance relative to shareholders, the way in which we express this is the movement in the share price, dividends etc. So we are looking at the benchmark of companies in our sector and we express that ratio as defined. We have performed better. Although we have performed well, relative to this basket of companies that we are comparing ourselves against, we did better than those companies.

So recovery and growth is behind us. What you see on the left-hand side of your screens, we started with the recovery and growth period, but now we are talking about the time beyond the recovery and growth phase of the strategy. We talk about engineered excellence within Murray & Roberts. The way we explain it within the group is engineered excellence first of all emphasises the engineering within Murray & Roberts. We want to become more of an engineering-led organisation, more so than what we have been in the past. So that message comes through in engineered excellence.

But what it also tries to explain is everything we do within the group we try to do in an excellent way. The design work that we do, the engineering work we do, the construction that we do, we want to do it in an excellent way. The way in which we developed our balance sheet, the way we develop our people, it is planned, it is engineered, and we want to do it in an excellent way. So maximising shareholder value I think is always important. We compete for capital in the market and we need to do well on that front.

I think what is starting to come through is we realised the natural resources space is the market space we believe in the long run that's where Murray & Roberts needs to apply its capability. The engineering work that we do, the construction work that we do, it has to be within the natural resources sector. That's our focus moving forward.

We need to diversify our business model. Most of our revenue and our income is earned in the hard construction part of the project value chain. We want to diversify that model. We want to have a great contribution coming from the engineering business, and we want to have greater contribution coming from the further downstream maintenance and operations support work.

Enhancing market valuation and positioning. As Murray & Roberts has transitioned from a company which historically was primarily an industrial holding company, primarily a construction company, this shift to being an engineering-led organisation, I think it is important that we position ourselves in the market and that message is communicated.

If you are a constructor and if you do your work in a competitive environment where each and every Dollar or Rand that comes through your income statement is through a tender that you secured, you need to make sure that you know how to manage a project, and you had better make sure that you understand commercial management on that project. That is something that will remain of crucial importance to Murray & Roberts in the future. And that we would like to do in an excellent way.

If we talk about maximised shareholder value for us what is important is that we do resolve the Gautrain and the Dubai claims. We've dealt with GPMOF in the past year, and as I've explained to you we've actually come up with a settlement which was better than the uncertified revenue that we accounted for previously, R333 million better. We have not disclosed the cash. There was a cash payment at the end of June, and a final cash payment will come through at the end of September. We have not disclosed it because our client on that project, which was Boskalis, they are still closing out their final account. We have been requested not to disclose the cash amount until that process has been concluded.

And then the Gautrain water ingress matter. We are all very familiar with that. It is I think a matter of concern to the investment community because it is just uncertainty of what the potential impact may be or may not be on Murray & Roberts. We must come on a landing on the Gautrain water ingress. I think it is important for us to do this and to get this behind us. And then EBT, cash flows and returns are important and growth in dividends we would like to see coming through.

A little bit more about natural resources. When we talk about natural resources what are we referring to? We are referring to the oil & gas market. It is important for us. The mining space. That's important to us. Energy and industrial. That is important to us. And we do have a presence in all these sectors at this moment in time. So we are very pleased that we are already positioned in those sectors.

We are asking ourselves the question, should we not consider entering the water market sector in a meaningful way, yes or no? So there is no conclusion at this stage. It is an evaluation that we need to do, but it is a very nice part of natural resources. We are not in the water space in a significant way, not at all. There has been no decisions taken, so don't say Murray & Roberts will do X, Y and Z. we are evaluating whether we would like to consider a position in the water market.

Diversify the business model. We need to expand our specialist engineering capabilities. How do you do that? You do it through bolt-on acquisitions. You can do it through organic growth, but you can also achieve that position through undertaking small, bolt-on acquisitions. And we have announced the first one very recently to the market. Very small, but I think very strategic. And there are a couple of other plans for the current financial year.

We need to grow our commissioning and asset support business. We also entered that space doing bolt-on type acquisitions. The capability that Clough has in commissioning was established through the acquisition of a very small company a couple of years ago, e2o. What that name means is engineering to operations, e2o. It was a very small acquisition but that is what leveraged in a good way within the Clough business and is starting to come through with good growth, top line and bottom line. It is still very small, but I think that is something of real success in Clough, that acquisition of e2o and the contribution. So that is the type of model that we will apply in diversifying the Murray & Roberts business model.

Wholesale market valuation and positioning. I've explained that a bit more on the previous slide. And safety, project and commercial management I have explained as well.

So we're at the end of the recovery and growth phase. You saw the family portrait that was developed for the group in financial year 2012. This is how it looks today. What I want to refer you to on this slide is the operating platforms. There are four of them in the group. And we decided to change the names of these operating platforms because tie as important that the names better represent the target market sectors of these businesses. Now, previously you will recall we had Construction, Australasia, Oil & Gas and Minerals. It is Oil & Gas today. That's the platform. Oil & Gas. Underground Mining. Energy & Industrial. That used to be Engineering Africa. Today it is Energy & Industrial. And then Construction Africa & Middle East is Infrastructure & Building.

So short names, but I think it gives a good message to the market as far as the target sectors are concerned that we will focus on. We didn't change the values. We didn't change the purpose. We did tweak our vision a little bit. You will see we are talking about a diversified project and engineering, procurement and construction group. So the EPC concept will start to come through stronger for Murray & Roberts as we move down this road of engineered excellence.

I will hand over to our aeronautical engineer who will now take you through the financials for the year.

Cobus Bester
Morning. I will apologise upfront to Henry. I can remember the numbers, but I can't remember the names. So I'm going to at times talk to the old names, but you know what I'm talking about. I'm going to back-track a couple of slides. There was a graph on the earnings, and there was a yellow portion and a blue portion. The discontinued

was the blue portions. When we sold our investment in Forge in 2013 in terms of IFRS and the way we supported it, it was not considered to be a discontinued operation. It was a profit on sale of investments. That's how it was interpreted. In the graph, however, we have reported Forge in a little footnote right at the bottom as discontinued operations. So we are going to refer to that a few times where we had the profit before tax of R681 million last year and the attributable tax after minorities and interest and tax was R223 million. So you will pick up those numbers on the graph we put up at the beginning. So on the graph for management purposes we compared continued and discontinued and we considered Forge to be a discontinued operation in that graph. However in these numbers I am putting up here in that R1.649 billion Forge is in there.

So not a huge increase in revenue, mainly driven by Clough. And then you will see later on reduction in the mining business, more so in Canada and Australia. The mining business in South Africa had an increase in revenue. And then there was a marginal increase in the construction business, the infrastructure business in South Africa. I think that is a good sign. I think that goes hand in hand with the stats in that construction grew by 5%, annualised 5% growth. So hopefully we will see some growth in the construction revenue in the future.

On the EBIT line I've touched on that. The R1.649 billion for last year had two elements. From real continuing operations R968 million moved to R1.5 billion in the current financial year. And then the R681 million from Forge was the profit on the sale of the investment. So the real growth in underlying results is the R968 million to the R1.5 billion. An excellent result coming through from Clough. We are going to look at the segment reporting just now. And what we said a couple of years ago is coming through.

In the Middle East for many years we battled in the Middle East to close out the old contracts. This year all the old ones effectively closed out. We were in a position to release some of the provisions we have taken in previous years. And the R131 million that you see there is the turnaround from last year. And then improvement in Construction Africa, which we have touched on, and more about that in the segment reporting.

Cementation you can recall last year had a loss. They had four problem contracts. This year unfortunately one of those jobs continued and still made a loss. But a good turnaround in the Cementation business in Africa. The GPMOF settlement I think Henry has touched on. And the danger of starting to talk about the GPMOF settlement is that we are going to say more than we should. And I'm sure within the next month Boskalis would be finished and completed with their settlement with Chevron, and then we can share the details with you. But what we've said in the past is that the amount of uncertified revenues that we've taken to book was a certain percentage and we expect more than just the uncertified revenues. So you can see there the additional income statement effect after settling the uncertified revenue was this R333 million. What we said a few years ago panned out the way we anticipated.

And then the water ingress provision. I'm sure Henry will come back to that in the Q&A because there may be many questions on the water ingress. Sometimes it is good to have some questions before the presentation. Then we can answer it as we stand here. So question was asked, is there a correlation between the R323 million which was a positive impact on the income statement, and the negative R300 million? Well, it is what it is. Those are the numbers as they came through. The R300 million is a number based on the work that we must do in the tunnel. And then we will talk more on the technical aspects. That is our share of the cost. That is exactly the number. Now, it is a coincidence that it is very close. What is unfortunate for us is that we have the R300 million. We should have had the R323 million positive and not the –R300 million. What is positive is that it happened in the same reporting period. It would have been disappointing had we reported the R323 million in the current financial period and then 18 months down the line had to make a big provision for the water ingress.

And then we will talk about the mining business. Canada slightly down on last year, but excellent prospects going forward. Interest is less than last year, but those of you that looked at the December number you will see it is probably more than the first six months of the year. And the reason for that is in last year we had the proceeds from Forge and we really didn't do anything with that until we bought out the minorities. And then in December we bought out the minorities of Clough, the R4.4 billion transaction where we used cash on the Clough balance sheet and we incurred interest-bearing debt.

The tax rate is slightly down on last year. The interesting part about the tax rate is the third bullet point there, in that in Australia there is a thing called a tax grouping. In South Africa you get taxed on your results for the company and there is no relief if in a group some companies make profits and some companies make losses. In Australia, however, under very specific circumstances you can form a tax grouping. And we have now formed a tax grouping where all the Murray & Roberts companies are taxed individually first, but then consolidated in the tax grouping. I'm over-simplifying it. Neil in front here is frowning. But that's how it works. Obviously we made a big loss on the GPMOF contract, and Clough is very profitable. RUC is also in there, and that is a very profitable company this year and going forward.

If you have assessed losses, and those assessed losses can be used in the future, you can create a deferred tax asset, which is a credit to the income statement and you create an asset in the balance sheet provided that you are 100% sure that you will use these tax losses in the future. What is also different in Australia is that you submit your tax return and you hear absolutely nothing. If you don't hear anything for five year it is accepted to be correct. In South Africa you get a piece of paper back within minutes. And then at least you know what you submitted for now is correct and also a period for the next three to five years.

We didn't want to be too aggressive in raising a deferred tax asset in the current financial year on these losses that we've picked up out of the GPMOF contract, and by forming the tax grouping. So in the financials you will see when it is published we spell it out clearly what we're going to do in the future and what we've done in the current financial year. So we will take in the losses and use up the losses as we report. So for this financial year Clough joined that tax grouping on 1st April. So the profits of Clough for three months were not taxed effectively. So we used up some of the losses, but only three months of losses. Next year it will be six months and six months.

So as time moves on you get more certainty and more assurance that your tax grouping is safe and effective and you will take in the full benefit of these losses. There is no reason to believe that there are any issues. We are just reporting in a very conservative way.

The R165 million is the income from Forge, the equity accounted income, the 36%. We sold that company in March 2013. The R1 million that is remaining is two small companies still in the group, the Bombela operating company and TKC which is also part of the Bombela family.

So if we look at discontinued operations we also had a question earlier on. And this morning Business Day reported on total headline earnings, which is a number you can report on. But the more important number is headline earnings from continuing operations because obviously when you sell a company you lose that income. So in 2013 we had 12 months of trading from the discontinued operations. In 2014 we sold the bulk of the operations in October, so it is obviously only three months of operation in discontinued operations. And then the Hall Longmore company was sold in February of this year. So it is difficult to compare only total diluted headline earnings this year to the previous year. One should rather look at the continuing operations.

The non-controlling interest, the R139 million, is more or less the same as the December number. Obviously in the second half of the financial year we didn't have the minorities in Clough. And that is 99.9% of the minority number. So if you break down the attributable profit – and this is now a bottom line income statement – continuing operations, R839 million, discontinued operations, R422 million, and compare that to last year, R488 million and then the discontinued operations R293 million to R422 million, because as I said in the R422 million is a portion of trading but also the profit on the day when we sold these companies. And then the profit on sale of Forge, R223 million.

From a balance sheet point of view property, plant and equipment is not huge movements. You can see R193 million. It is sometimes quite difficult to determine what the capex would be for the new year. In the mining business in the underground business in many instances we have to buy the capex. It is not a bill item. Construction people would know what the bill item is. So we have to take that on balance sheet. If there are no major new projects starting where we have to fund the capex, capex will be low. Where we pick up a big job and we have to fund the capex – and we are looking at a job now where the capex could be R600 million in one go – we are looking at different ways of not incurring the capex. Clients should incur the capex. The plant should do their own plant. But then of course we lose the margin on that element of the plant. So sometimes it is difficult to forecast the capex. Simplistically, if we tell you the capex is going to be high next year and we are 100% sure of that, it means we are going to pick up a lot of work, and that is a good thing. So the capex was made up of R670 million expansion capex and R290 million maintenance capex.

Other non-current assets, not much movement year on year. I should have said upfront, but it is also in the footnotes somewhere in the numbers, once you decide to sell a company you have to restate your numbers of course. And Tolcon last year this time and December was not classified as discontinued. But all these numbers, the comparatives with 2013 numbers, have been restated with Tolcon moving into discontinued operations.

So included in the R4.075 billion I think the number that would be interesting for you is the investment in the concession business. That is really our investment in the Bombela Concession Company, R670 million. It is up from last year's R580 million. Once a year you do a fair value adjustment, you take it through the income statement, you debit your asset on the balance sheet, and then that company declares dividends and the dividend is then offset against the carrying value. At the end of the concession period effectively you have taken the full cash flow through your income statement, but not in the form of a dividend, in the form of fair value adjustment.

So we are still using a very conservative cap rate of 19.5% and we have been using that cap rate from day one. We feel it is the right rate to use. Auditors are of the view that it is very conservative and that we could have used a lower rate. That would have resulted in a higher value and a higher number that you take through the income statement. But then the gap between the book entry, which is not cash flow, and the dividend which you receive, which is cash flow, that widens up and we don't want to see that.

Assets held for sale is a net number, R406 million and R309 million. A little bit of Clough properties is left there. A little bit of the old steel business which we sold there. And then the new number that has come in is the Tolcon net asset value of R156 million. So we have received earlier this week the Competition Commission final approval. The effective date of the transaction is in fact 1st April, but it makes no difference in the numbers. But the transfer date will be either tomorrow or Monday. So the cash would flow either tomorrow or Monday.

Shareholders equity Henry touched on. So in the financials there is a long reconciliation from one year to the next. And you will see two big numbers, debit to the shareholders equity numbers. Obviously you make profit, you declare dividends, and that is all credit to the number. The debit to the number is what we explained in December to you. When you buy a company and you already have control the goodwill element or the difference between carrying value and the purchase price is a debit to equity. And that is IFRS. It has been explained to me why it is like that, but I can really not tell you why it is like that.

So the Clough transaction. In December we went through a lot of detail on the Clough transaction. R4.4 billion or $460 million. We used $310 million on the Clough balance sheet by declaring in part a dividend, and the balance was used as a loan to the Murray & Roberts Australian company. And then we had to incur interest-bearing debt of $156 million. And that is the increase really in the interest-bearing debt in the current financial year.

So it took us since we made the decision to start doing something about the interest-bearing debt and where the cash was sitting a good three years to get to a position where we have interest-bearing debt outside the country that is fairly cheap, and we have cash in the country where we earn much more interest than what we would earn in Australia or Canada or wherever overseas. So for the first time most probably in six years the South Africa balance sheet is ungeared. We still have a lot of cash in Australia and we have cash in Canada. But the only interest-bearing debt in South Africa as we stand here today is the asset-based finance. And we have cash on the balance sheet. The net position is ungeared.

Currently the $150 million is from South African banks. We are not using any short-term facilities in South Africa at all, in fact nowhere. You can recall in November 2012 we had a debt restructuring package put in place of R4 billion. That has been paid in totality. And within the next few weeks we are going to start talking to the banks about a new debt package.

The details are in your pack. I just want to highlight a number of items. Obviously a big inflow with the sale of the businesses. And that is the cash that actually came in. We haven't touched on the vendor loans in detail. But there are still vendor loans of just over R400 million out there related to the sale of these businesses. And those loans will come in over a two year period, the first loan payments starting from 1st November. Over the next 18 months or so there is another R400 million cash coming in from the sale of the businesses.

Disposal of Hall Longmore, that is in line with earlier discussions. Hall Longmore was sold at net book value and we have also sold the stock to the buyer. So as they use the stock they pay us. And we had to collect the balance of the working capital. So it will take us another two to three months and then the total Hall Longmore transaction will be behind us except for a very small vendor loan that will come in over an 18 month period.

Other investing activities, proceeds of sale of fixed assets, assets held for sale and then that big number at the bottom there, acquisition of intangible assets. Clough has put in a new EIP system. It is a lot of money in Rands, but in Dollars it is not such a big number. We are putting in an Oracle system. The Clough transaction we've discussed.

We've been talking to you about the working capital outflow for the last two or three years. Two elements to that. Unwinding of old contracts and working capital and payment of subcontractors in the Middle East. We're still not at the end of it. We've still got a bit of cash outflow in the Middle East in the next six months. And then Clough had a fantastic December cash balance, but some of the money had to pay back that was sitting in the working capital. And when you look at the work in progress note – I think it is note five in the financials – you will see that advances from clients reduced from R3.5 billion to R2.5 billion. So there was R1 billion of over-claims and advance payments that we got from our clients that we had to pay back in the current financial year.

Interest, tax and dividends. Most of it, R720 million of that, related to the tax Clough had to pay on the Forge transaction. And then capex we've touched on. We told you what was expansion and what was maintenance capex. But the breakdown for the business is Underground Mining, R375 million, and then Clough we bought a barge. Neil can explain to you later on what the jack up barge is. That took a good 18 months to build. I think it is now finished and it is in operation.

From a revenue point of view Clough has grown tremendously over the last few years. You will see in a slide that Henry will put up just now that the order book in Clough is slightly less than what it was a year ago and 18 months ago. But the nature of the business is changing, and we will talk to that just now. Underground Mining has come down over the last three financial years, but the opportunities are tremendous in the Underground Mining business today. You will see the slide that Henry will talk to about the pipeline and the new orders. That is the business that will grow top line and bottom line in the current financial year and beyond.

Energy & Industrial, which is the previous Engineering business, that is the power station work and the engineering work outside the power business. Fairly flat revenue, and that was expected. The power station work has got quite a long tail and it coming to an end. As that is coming to an end other work is picking up. And then encouraging to see that Infrastructure & Building, which is of course the old Construction Africa & Middle East business, revenue is picking up. So in the boom times, 2010, this was a R12 billion business. This R7 billion business was a R12 billion business. Will it ever be a R12 billion business? It is possible. But then we need to start working on the Lesotho Highland Scheme phase II. We need to start to work on the dig-out for the Durban port and the railway line from the Waterberg down to Richard's Bay etc.

It gets a bit busy now, and I'm not going to spend too much time on it. There will be a session after our presentation and time to question the platform heads on the detail. But I think what is important on this slide is that you can see the Construction and Fabrication – which is really just construction; fabrication was a small thing that we had in Thailand and that has been closed out now and we don't have that any more – that's where the margins are sitting. Compare that to the two other ends of the value chain. Henry spoke about that. So the value chain of the project is the pre-feasibility, the feasibility, the engineering work. Then you go into construction and then you go into maintenance work and commissioning and so forth.

And we have been saying that the two end portions of the value chain will give you better margins. This is exactly how we see it here. So Construction is not to be sneezed at, 6% margin. Better than what we've been achieving in South Africa ever. But greenfields projects there are coming to an end. Therefore we will do more of that and more of this; smaller turnover but better margins. We are saying that this is the area that will grow the most. If you go back another year you will see the R1 billion 2012 was I think R500 million. So we have been doubling the turnover year on year. It is sitting on R2 billion now at a very nice margin. But the nature of this business will change.

The Global Marine business, what has happened in the current financial year in March or April is that the Murray & Roberts Marine business based in Cape Town now reports into Clough. That is part of the Global Marine business. And the reason for that is Murray & Roberts Marine I don't think is doing any work in South Africa at the moment. They've done some work in Namibia a year or two ago, and we've tendered for a number of jobs, but we haven't got any work in South Africa. Their work is in Malaysia, Indonesia and the Middle East. So their experience in those areas is going to help Clough. And Clough's expertise with the joint venture they've been running for the last 50 years is to do much larger contracts in Australasia. So we are really looking forward to the work that will happen in Mozambique. That will be a Murray & Roberts Clough joint effort. It will be a joint initiative. So the marine work will be done by Clough Global Marine and the civil and construction work by our construction and infrastructure colleagues.

Maybe just some explanation on the corporate numbers. You will see the R293 million is a positive and there is a big negative. Included in that positive – because it doesn't really fit in anywhere else – is that R681 million profit on the sale of Forge last year. Included in the R432 million is some transactional costs when we bought out the minorities. Not all the transaction costs related to the close-out of the old option scheme could be capitalised, so we had to take that through the income statement, R67 million.

And then Clough had wonderful offices in Perth. We signed a lease there about four years ago for the next ten years. I won't give you the rate per square metre, but it was very expensive. And over the last 12 months we've been unwinding that and we've been getting out of that lease by sub-leasing it and moving into other offices. That will save us hundreds of millions of Rands over the next six years. Obviously if you do that you always take a small knock, and we have an onerous lease provision we had to take through the income statement. So if you strip out the Forge profit and you strip out the two extraordinary once-off items, the remainder is the true overheads of that business, the corporate overheads. And you will see that there is a saving of close to R100 million year on year in the corporate overheads.

Underground Mining. A good, profitable performance. The encouraging sign is that Africa has turned from a loss to a profit. Last year we said that there were four loss-making jobs. We also said that the loss-making jobs have now come to an end. Unfortunately there was still one last loss-making job, and it is still not 100% complete. I can share that with you. The largest single loss-making job in the group was in this business for the last financial year, and it was a loss of R75 million. So although it sounds not good, R75 million is a big loss, two years ago we were talking about $200 million in GPMOF, and billions in losses in the Gautrain for example, and hundreds of millions of losses in the Middle East. So we said yesterday to the board loss-making jobs is more or less like safety statistics. You don't want any fatalities, you don't want any lost-time injuries, but it is a way of life. It is going to happen.

What we haven't shared with the market before and it is not in the presentation is we've been asked before in how much of your turnover do you have loss-making jobs. So in the current financial year on 10% of our turnover, so on R3.5 billion worth of work, we have incurred losses. And that is 10% of the turnover. So the aim really should be to have absolutely no loss-making contracts. Some jobs will do a lot better and some jobs will do worse, and in some instances you will make a loss. So if we can limit the loss-making jobs to 5% of turnover I think it will be right up there with the best construction companies.

So Australasia, the margins are still not bad at 7%, but you can see a drop in turnover and obviously a drop in revenue. And then the Americas, a big drop in revenue and a big drop in margin. But Henry will talk to you about the prospects, and we see big things coming through in this platform in the next 12 months, huge opportunities.

Energy & Industrial. This is the old Engineering business. The power programme is running to expectation. It is becoming more and more difficult to sign off within a very short period with Hitachi. We are on a cost reimbursable basis with the fee. Obviously it is very difficult contracts. We haven't reversed any of the revenue and profits taken before. But on a monthly basis it is a struggle as these jobs are coming to an end to get sign-off and to get the cash in. I think the business that sort of stands out, and it is not apparent from the slide, is the Genrec business. Genrec has done extremely well in the current financial year. They had to tender to Hitachi for some of the power work, and we won that. We've picked up work outside the power programme. Two or three years ago Genrec was 100% committed to the power programme. They had lost their presence in the market and it took them a good two years to get back into the market. So they've done extremely well.

The engineering business, a mixed bag there. Unfortunately the number is more or less the same. This is the engineering business outside the power programme. What is in that business? It is the old Murray & Roberts Projects, MRP, which is now called Power & Energy. It is the water business. The old Wade Walker which is the electrical implementation business and the old Concor Engineering. And they are putting up these steel structures for platinum mines and gold mines, wash plants and concentrators and those things. So the electrical implementation business and the old Concor Engineering made a loss in the previous financial year and in the current financial year broke even.

Unfortunately we didn't pick up new water contracts and we didn't pick up any other engineering work outside the power programme. The guys are working on many opportunities – and Frank can talk to you about that – but unfortunately two of the businesses did better than last year and two of the businesses did worse than last year, and it ended up more or less the same as last year. The potential however is huge in this business. So the power programme has got a tail on until 2018. So we've still got a while to catch up. But we would like this business to retain this revenue of R4.7 billion, but the mix will be totally different two years from now.

So let's start at the end. A nice turnaround of nearly R300 million. And let's work our way back. The Middle East, the R83 million against the R47 million. Included in the R83 million is a provision that we had to take from two years ago on the Zayed University. Fortunately we could close out the contract, the final accounts were signed off, guarantees have been returned and we could release that provision we've taken two years ago. That has really resulted in this profit. We are currently only running two contracts in the Middle East. And we have said before we will probably not be in the short term anywhere close to the levels we were in 2009 and 2010. It is a very slow build-up and very careful in picking up new work in the Middle East.

The Marine business, that is a very nice number now. Ignore the margin because included in that R302 million is the GPMOF settlement. If Clough knew that we were going to have a very good settlement they probably would have said we will buy that claim from you. In the Clough numbers the Marine business from 1st April is in there, but in these numbers the Marine business up till the end of March is reflected here. So this won't repeat itself. That's the end for this business from the Marine point of view. From now on Marine, running out of Cape Town, is reporting in to Clough.

Right. The difficult one here to explain is the R189 million. The R189 million includes all sorts of positives and negatives. The big negative in there is the water ingress provision of R300 million. The big positive of R234 million is the concession fair value adjustment. Now, you may say maybe we shouldn't report it here at all. But where else do you report it? Our concession business and Tolcon used to be reported here. Tolcon is now out; the concession business is still in there.

So if you strip out the water ingress provision and the fair value adjustment and this additional Gautrain cost here at the bottom, obviously with the water problems that we have, the design work that we had to do, the legal cost that we had to incur, there was an additional cost that will not repeat itself in the future. But if you strip out those couple of once-off costs this business did make a profit in the current financial year, just under R100 million. This is a very nice turnaround from last year and the year before. The margin aspiration for this business we say between 5% and 7%. I think if we can get this business to 3% excluding the concession business in the short term it would be a good performance.

Discontinued operations are quite busy. What we've split out is the operations and the profit on the sale of those businesses. Obviously in the one financial year we have 12 months of trading. In the current financial year we have three months of trading for most of it, except for Tolcon. That is 12 months of trading. So you really can't compare last year to this year when you look at the make-up of last year and the make-up of this year. In the new financial year, 2015, there will be bits and pieces. The bits and pieces will be the final close-out of the Clough properties. We have just about nothing, $6 million I think it is, worth of book value in Clough properties. There may be a positive reversal if we sell some of these things at a higher value. There may be a slight negative. But it is not huge numbers that we're talking about. So I think we've sort of come to the end of reporting on discontinued operations.

Henry Laas
Thank you, Cobus. Cobus explained the numbers so well I'm pretty sure each and every one of you understand it as well as he does. Thank you for that, Cobus. All right, back to the order book. When you look at the order book you will see R41 billion. And the movement is primarily in the Oil & Gas space. The other platforms are up and down a little bit, but no real movement. It is in the Oil & Gas. What is happening within Australia is the boom of major L&G expenditure on greenfields projects is coming to an end. But as these plants which are under construction now come into operation the opportunity opens up for commissioning and brownfields asset support. That is part of the business which Cobus showed you which had the very nice margin. We are not sure what the order book is for Clough today. It is down from R20.6 billion to R16.7 billion at the year end. We're not sure whether it is going to stabilise at R16.7 billion or it is going to stabilise at R15 billion. We're not sure where it is going to stabilise. It is in a transition phase. But we are still extremely excited about the potential of this business and we are very pleased with the investment we have made.

This is a very interesting slide. Cobus has touched on it slightly, but let me explain. The order book is R41 billion, and you can see how it is represented for each of the platform. There is R14.2 billion of new orders in the Underground Mining platform. Now, a new order is where we are the preferred bidder and there are commercial and financial close discussions underway on that opportunity. So it way beyond the tender stage. It is way down the adjudication path as well. R14.2 billion of work currently in new orders in that platform. That is enormous. And the pipeline, R64.9 billion. Now, let's just define the pipeline a little bit. That is not the universe of opportunities that are out there. These are the opportunities that have gone through an initial assessment phase and we have decided to tender on. So we are working on tenders to the value of R64.9 billion for the prospects that are very close to the point of coming together. So it is not far-fetched values of opportunities, is something that is going to happen five years down the line, or something that is out there that we're not really targeting to secure. So the order book is down, but as you can see in new orders and in the pipeline there is significant opportunity that we are pursuing at this moment.

On this slide you will see the breakdown of the order book over time for each of the platforms. When you add up the 2015 numbers you will see it comes to about 80% of the R36 billion revenue that we recorded in the prior financial year. And I think it is a reasonably good position to be in. At this stage of the year we have just started the new financial year, and we have secured 80% if you use the revenue for F2014 as a base. 80% of that is already secured. You always win your work and start to execute work during any financial year, so that picture will change, especially with some of the new orders which are either under commercial or financial close. As they do get closed out and work commences in the current year it will start to find its way through into the revenue for 2015.

This slide on the far right-hand side Cobus mentioned the margin for Infrastructure & Building. And you will see there we indicate less than 5%. Cobus said in the short term if we can come to 3% margin it will be a good performance. For the rest of the group we are targeting 5% to 7.5%. That is where we want to be. The market prospects are these arrows on this column here, for Oil & Gas because of the transitioning that has taken place in he Australian market place we've got a flat arrow. Not up or down.

For Underground Mining we are very bullish about what is happening the in the underground mining space, not only in South Africa and into Africa but also in Canada and also in the US. Very strong activity taking place. It is only Australia which is slow at this stage. And the Australian business is targeting opportunities in Indonesia, the Philippines and other parts of south-east Asia. If you exclude Australia for now the Underground Mining opportunity throughout the rest of the business in all the geographic regions strong growth is expected in the short to medium term.

We always received questions in the past about the various commodities that the Underground Mining business is working on. Now, this grey circle over here represents June 2013. And here you look at June 2014. The biggest move really is copper that has increased. Gold has gone down. But the major growth that came through is in diamonds. And that is the Venetia project for De Beers which found its way into the order book. I think it was R2.6 billion for this which is included in the order book. Obviously this is not the end of it. This project needs to be built over many years. And at the time that we worked on the tender the value for our mining business in this project is R67 billion of which R2.6 billion is currently included in the order book.

I don't want to talk through all the detail, but the Oil & Gas business really had an exceptional year. 2014 was a very good year for our Oil & Gas business and we are very pleased about it. But I think the take-away for the audience here today is that this business is going through a transition. The market in Australia is changing. It is putting a lot more emphasis on the engineering, commissioning and asset support part of the group and it is also spreading its wings a bit. It is becoming more global. It recently established an engineering office in Glasgow with the intention to provide engineering into Europe, Africa and the Middle East out of Scotland. That has started very recently. We haven't secured any work yet. And we are hopeful that within the next ten months that we will start to see orders coming through for that office in Glasgow. The Underground Mining we have spoken about. It is really an exciting time for us if we just look at the level of tender activity that is taking place.

The Kalahari manganese project we've reported on previously. We are in financial commercial close, and every day we wait to hear if it is now the end or not. It is not the end yet. We are still in negotiations. If we are successful it is about R6 billion, the size of that project. And we did get permission from Kalahari Manganese to say that we are in financial close with them on that.

Energy & Industrial, Frank will talk to you about this in a bit more detail if there are questions on it, but we are targeting the petrochemical market and the power sector in a big way. The Kusile and Medupi power stations will come to an end, but we have positioned ourselves with Eskom and negotiations are underway and – I spoke to Frank this morning – will continue in the immediate future. We are trying to position ourselves to provide a service into the existing power stations of Eskom. There are a lot of shut-downs that need to happen. There is a lot of maintenance work that needs to happen. There are a lot of operational issues that need to be addressed in the power sector. And Frank is targeting that. We haven't secured anything yet, but we are positioning ourselves for the opportunity.

We haven't done any work for Sasol for many years, and the petrochemical space provides significant opportunity for us. We are back on the tender list. We are already submitting tenders for work, and we said we are going to be successful in the not too distant future with new work for the first time in many years in the petrochemical space.

And then the Takoradi Port in Ghana. We've won a small project, I think R20 million, very recently. The work on that has commenced. There is a jetty that needs to built. We think Clough with its Marine business will be successful in that opportunity. But it is quite a big expansion and it is early days. We are up there assisting the development with the expansion, and I think we will get a fair share of work on that expansion project. But then also as far as the renewable energy projects are concerned we are well positioned there. We have got preferred bidder status with companies which are currently in commercial close with government on those opportunities. Depending on when they close that out our work will then start. But we are well positioned.

In Infrastructure & Building we know the market in South Africa is still very competitive. It is slow. It is tough. We've got a reasonable order book, but it is at low margins, which means for the foreseeable future these low-margin orders which we have secured will find its way through the business. So don't expect any significant changes in the short term. Our order book is strong, especially in building, but low margins. It will take us some time to build these projects and work through that part of the order book.

In the Middle East the market is starting to come back. We have recently secured two opportunities, one in Qatar and one in Abu Dhabi. Work has commenced in Abu Dhabi as far as [unclear] is concerned. It is a design build project. We are still busy with the design on that. And as far as Africa is concerned, I know that some of our competitors do work in Africa. We don't define Africa as our neighbouring countries like Botswana and Namibia. We have been doing work there for many years. It is more further north, sub-Saharan Africa. And we bid for many projects. Maybe two or three of them. And we were just not competitive enough to be successful on those tenders. And we don't mind that because we don't want to win a project somewhere in Africa and lose money on that. But there are opportunities out there and we need to position ourselves and see how we're going to be successful.

We are coming to the end of this presentation. I don't want to say too much about GPMOF. We have covered a lot of ground on that today. As Cobus has mentioned, hopefully in the not too far future Boskalis and Chevron will settle their final account and we will then be able to share with you the cash impact of that settlement. We have already accounted for the cash payment at the end of June, but there is another payment due at the end of September.

Gautrain has various components to it. Let's start with the easy part. The Sandton cavern was ruled in the Bombela Civil Joint Venture's favour. The hearing as far as the quantum is concerned is scheduled for F2015. This ruling here was received in October 2013. It just shows you how long it takes. October 2013 to F2015 when the quantum hearing will happen. The delay and disruption claim we've shared in prior reporting periods. It is the biggest component of the total suite of Gautrain claims that we are working on. It is a multi-billion Rand claim, and we don't know how successful we will be in settling it. But we think 2016 is maybe the best estimate at this stage of when this matter could be closed out. Whatever the award is of this claim will attract interest from 2009.

The one part I guess you people are really interested in is the water ingress. So you will recall we have this arbitration ruling that was in Gauteng Province's favour. And that basically said that the part of the tunnel between Park Station and E2 shaft close to Rosebank the way in which the water drains into the tunnel is outside of the specification. And we need to bring it into specification the way in which the contract interpreted it. So we went through a very comprehensive process. It cost us some extra money. Cobus mentioned some of the additional costs that we had to account for in the prior financial year.

And we've appointed design experts and consultants to come up with a solution. And at this stage we believe that the only way this very tight specification could be achieved with a level of certainty would be to put a concrete lining into the tunnel. So this is where we are. The solution we have at this stage is the concrete lining. That is what is required if you have to meet that specification. And we've worked out what the cost of the concrete lining would be for that part of the tunnel and we have provided for our share of that cost. We have presented the solution to the Gauteng government.

We don't know whether they are going to insist on the solution being implemented, whether they are going to ask us to do anything else. But we have come up with the work we had to do in terms of finding the technical solution and it is a concrete lining. So if that specification has to be achieved we will have to put a concrete lining in. having said that, what the arbitration panel also ruled at the time that they did give the ruling on this water ingress is the way in which the water is draining into this tunnel has got no impact on the safe operation of the system. The train is working perfectly well. I think if there were any safety concerns the rail safety regulator would insist. But the tunnel is working very well. It was designed to be a drain tunnel and it is doing exactly that. However, there is more water draining in the tunnel than what the specification calls for. And that is the issue we have.

We don't know how we are going to deal with it. It is very complex understanding what the impact would be on the system etc. We felt it was important when we got to this stage of having a defined solution to the problem and realised what the costs would be that we then provided for our share of that cost. And as Cobus said it is fortunate that it happened in the same year that we had the GPMOF money coming through, so on the bottom line you don't really see the big impact coming through. What we have no provided for and we cannot provide for is if the concrete lining has to be put in. obviously that part of the system will have to be closed because you can't do that work while the system is in operation. There may be further financial implications which are impossible for anybody to quantify at this stage. So we haven't provided for anything. We don't know what it is. I think there is a note in the financials on that contingent liability. But the physical work of putting the lining into the tunnel, our share is R300 million and we have provided for that.

Dubai International Airport. We say that we expect to close this out in calendar year 2015. If you ask me today how will we achieve that, the answer is I don't know. But we are working very hard to do that. We have appointed a new legal team that is working with us on it. There are a couple of interesting developments. And if everything goes well I think there is a chance of us closing that out in F2015. So there is a plan to achieve that, but we will have to work very hard to achieve that outcome.

I want to repeat what Cobus said earlier on. When we accounted for the uncertified revenues on these major claims we communicated to the market many a time that the accounting was very conservatively done on what we expected to achieve in the eventual settlement of those claims. I think GPMOF is a good indication. We achieved R323 million over and above the uncertified value that we had in our accounts previously. And we hope that we can do the same with the other two claims that are outstanding.

Murray & Roberts is an international engineering-led contractor and I think when you look at the slide on the screen it shows you where we operate globally. We are an international engineering-led contractor. I think this brings us to an end of the presentation. Ed is going to assist me here. we are going to take questions from the floor. We do know that there are some people that are listening in and we are going to take some questions from them as well. But first let's open it up to the floor. Are there any questions? And after this question and answer session some people may want to leave. We will give you the opportunity to leave. For those of you who do have time to stay behind we will then go into the question and answer session with the platform executives. There is a roving microphone here, so if you can give us an indication that you have a question we will take the microphone to you.

Paul
Paul [unclear], Independent. Over what period of years does your order book span?

Henry Laas
Primarily the new financial year 2015 and 2016. And there is a little bit in 2017.

Paul
Three years.

Henry Laas
If I can just go back to one of the earlier slides it shows you for each of the platforms what is in 2015, what is in 2016 and what is in 2017. And you can also get an indication...my apologies. You don't get an indication here that is only the pipeline. So primarily the next two years and a little bit into the third year.

Roy Campbell
Roy Campbell from RMB Morgan Stanley. Two questions please, Mr Laas. The first one is on the water ingress for the Gautrain. About two or three years ago you had a provision of about R500 million which was for two things. One was for the Competition Commission penalty and the balance was for this water ingress. You then went back and did some work and it didn't make the spec. The work that you did then and the work that you have to do now, that is obviously very different?

Henry Laas
It is very different.

Roy Campbell
And I don't understand, the lining of the tunnel, does that mean it is a water tight tunnel in that portion?

Henry Laas
Yes. So what we did in the time that you refer to is we incurred a cost of R200 million. Our share of that was R100 million. We went back and we did traditional grouting. What that meant is we drill holes into the floor and the walls of the tunnel, we pump grout into those holes, it goes into the cracks and tries to seal the water that drains into the system. So we've done that work and it didn't really have much impact. It had some impact, but very little impact. But you could go back into the tunnel and you could supply a grouting solution. We've been doing exactly that again, but doing more of it and doing it over a longer part of the tunnel. But there is no certainty that that work will reduce the way in which the water drains into this tunnel to a level that will bring it within specification. The only way that we can achieve for certain that specification would be to put a concrete lining in, and that effectively means a watertight tunnel.

Roy Campbell
And have you presented that?

Henry Laas
Yes.

Roy Campbell
Any feedback?

Henry Laas
No feedback yet.

Roy Campbell
A question on the minority interest of R139 million. Is that all Clough?

Henry Laas
[Overtalking] only the first six months. It was a similar number to the first six months. It hasn't changed much.

Roy Campbell
On a normalised basis for the whole year you could add 30 cents to current earnings.

Henry Laas
If you say so, yes. That's a very important question. You will recall when we had our half year results when we explained that to the market we explained the impact of the disposal of Forge which happened in the prior financial year. It was in the 2013 financial year. It was in the 2013 financial year. We sold Forge and we didn't have the associate income from Forge in the first half of the current financial year, but we still had the contribution from the minorities which came in. And obviously if we owned Clough for the full year we would have had the minority contribution for the [unclear] period. Any further questions?

Standard Bank
Good morning, [unclear] from Standard Bank. Just a follow-up question on the water ingress claim. You mentioned R300 million as Murray & Roberts' portion. Are you able to give an indication of what the total cost for that project is?

Henry Laas
We are in a joint venture with [unclear] and FBG in the Bombela Civil Joint Venture. So the cost is around R600 million. We are a 45% shareholder in the Bombela Civil Joint Venture.

Standard Bank
And then just a question on Dubai. You mentioned that new lawyers have been appointed. You have in the past [unclear] the legal jurisdictions in the area the difficulty of trying to [inaudible]. Can you provide an update on the rationale for getting new lawyers and if that had an impact?

Henry Laas
The people that we have used in the past did good work for us. We went through a period when the focus was on trying to get clarity on who the respondent was to the claim. So that was really the work that we've been doing for the past months. The ruling came in March of this year. We had the ruling who clarified who the respondent to this claim is. And as a consequence of that we now understand how to take it forward and which parties need to respond to our claim. We felt it was important to bring fresh people in. They are well established in Dubai. They have been doing work for the legal department in Dubai for a number of years, and we felt it was important to bring a new team to work with us on this. So no specific reason that the people we used previously were not competent or not capable. We felt at this point in time we've been through months and months of trying to establish who the respondent was now that we've reached that stage to bring a new team on to take us through the rest of the process. There is a question right in front and one at the back.

Leon Kabela
Leon Kabela. I just want to find out from the revenue side. From the 5% revenue [inaudible] from the 5% revenue.

Henry Laas
You can work it out when you look at the segmental analysis. But Cobus did indicate that the growth in the revenue is primarily as a result of the revenue which came from Clough.

Paul Neethling
Mr Laas, thanks for the presentation. It's Paul Neethling from Laurium Capital. I just wanted to double check on how the O&M contract in Clough works. Just looking at your order book, that came in slightly, but looking at the breakdown between the divisions in Clough obviously you guys pointed out that the evolution of the order book has changed from construction and fabrication into more engineering and commissioning in brownfields. So I assume that means more from construction into O&M type work. If we then look at the timing it is still predominantly in the coming year, but I would have expected those O&M contracts to have a longer time period.

Henry Laas
They are actually shorter durations. The commissioning projects are normally shorter duration. If there is a new energy project that comes to market it takes you five, eight or ten years to build it. And if you secure a position on the project that's a long duration. So you see that in the order book. A lot of the value in the Clough order book currently still represents construction work. There is major activity happening on projects which are still under construction now. So the condition that we are talking about is not already reflected in the R16 billion order book that we are reporting for the period up to June 2014, we will see this work its way into the order book over the next couple of years. We are not sure exactly where this order book will settle. Neil, if you could think about a better answer to this question when we do the operating platform session maybe you can try and address this.

Neil Siford
Can I add? Most of the revenue in that sector is commissioning work. And we will be doing commissioning work until 2018. That is when all the new build will be finished. And we are starting to get into the operational side. We must make the call down the line when it starts to get a big number. But I don't think we are going to take in an order book value of five years to ten years. We will probably take an order book value in year on year on the operational side, maybe two years.

Paul Neethling
And how long would those contracts be?

Neil
These plants are built for 30 years.

Paul Neethling
Would you sign for 30 years?

Neil Siford
No, you never sign. It's a similar to the work that Frank's business is looking for at Eskom. You sign up most probably for a project, and if you perform well you will stay there. But the client will never give you a 30 year contract.

Ian Cruickshanks
Ian Cruickshanks, SA Institute for Race Relations. On the electricity this is one of the most serious deterrents to capital investment into South Africa. Considering the disappointing time it has taken for Kusile and Medupi to get operational – and you had some involvement there – do you think that the president's signing of the contract to take 50% of the first phase of the Grand Inga project, a total of 4000 megawatts, do you expect to have any involvement there and is that a big opportunity for a step into the total scheme which could be 40,000 megawatts.

Henry Laas
Which project are you referring to?

Ian Cruickshanks
Grand Inga.

Henry Laas
That is a project that has been under discussion and under planning for decades. And I would be surprised to see that it is actually materialising in the short term. What I can say to you is as far as we are concerned we provide a service into the power sector, and if that is an opportunity that is real we will try to participate in that.

Ian Cruickshanks
Can you [unclear] short term please?

Henry Laas
I don't know. It depends on [unclear]. I can't help with that. This has been in the market for decades now. I don't know whether it is going to happen.

Ed Jardim
Can we take a question from outside? I will read a question and Henry can answer it. It's from Guiseppe German [?]. Can you give some more detail around the underground mining pipeline of R24.5 billion and which projects are these and which potential clients?

Henry Laas
Okay. I don't want to compromise our position on any of these projects. I can say to you it does include work for Impala Platinum. It does include work for Northam. And Kalahari I have mentioned because that is already in the public domain. That is as far as South Africa and Africa is concerned. When you talk about our businesses in the Americas, the opportunities that they work on includes work in Europe. It is not only limited to that geography. I think the potash mine is something which is of really interest. And that is in the public domain. There are many companies bidding on various elements of that project and we are also bidding on that. I hope that answers your question. How much time do we have, Ed? Another two questions and then we will give those that that would like to leave the opportunity to leave.

Male speaker
Hi Mr Laas. Just a quick one on your major claims. If you had to put them into a separate company what would those financials look like? You have income of R323 million, but we don't see the cost line and how that cost line is going to move now that you've got GPMOF out. There must be some savings coming through due to lower costs out of these claims.

Cobus Bester
GPMOF is out. And just to clarify so that there is no confusion, the second cash payment that we will receive in September, the income statement effect of that has been taken. So don't think there is a payment in September

and another R300 million income statement effect. That deals with GPMOF. As far as Dubai and Gautrain is concerned the cost that we incur on those two projects are legal costs and expert costs. We as Murray & Roberts put up a number of R150 million for Gautrain that we've taken in the current year. Last year it was R40 million. So there is an additional cost in the current year that we've written off related to the water ingress and experts and so forth. But the delay and disruption claim, which is the biggest, and the Sandton quantum justification, there are cost involved. We are not writing it off in full. Some of those costs we are capitalising or discounting it into the future claim. The same with Dubai airport. We are not taking the legal cost as we incur it now and writing it off.

Henry Laas
There are still some costs that we incur on Gautrain unrelated to he delay and disruption claim, unrelated to the Sandton cavern claim. But you will see some of our people still working on the system. There is still a flag list of small things that they are closing out. But there is no other cost other than the legal fees. Final question.

Male speaker
Mr Laas, I believe you are involved with the power station contract here in South Africa. Eskom announced receipt of contract claims of R50 billion. The number I've head privately is quite a lot larger. Could you indicate to us whether you are you part of the R50 billion contract claim grouping, outside or more?

Henry Laas
Let me answer you by first saying two of our platforms have performed work on the power programme, one of them on both Kusile and Medupi. That is our Energy & Industrial platform. And in that platform we've got a contract which is on a [unclear] basis with Hitachi. So as Cobus mentioned as work is coming to an end we battle to get paid for all our costs, but there is nothing material. So we are not part of that bigger claim as far as that platform is concerned. The other platform that is working on the programme is Infrastructure & Building. But they only work on Medupi, and there they are working specifically for Eskom. And we do have claims against Eskom which are under negotiation at this stage. But I can tell you when you talk about R50 billion our claim is a drop in the ocean relative to that number.

Cobus Bester
Can I add to that? The Medupi Civil Joint Venture, we have 67% and Avenge 33%. In April 2013...remember we started there in 2008. So after five years of working on Medupi civils we settled all claims and then we started this phase two. And we are just about done. It has got a tail of about 18 months still left, but not a lot of work. I think in total R700 million or R800 million. There are claims, but it is not close to the number.

Henry Laas
You shouldn't be concerned about it. Ladies and gentlemen, thank you very much. For those of you who have to leave you are more than welcome to do so. If you want to ask questions to the platform executives they will be here. I will give people who want to leave the room an opportunity to leave and we will then carry on with the platform executives. What I want to do now is first of all introduce the platform executives, and then you can come with your questions. I'm not sure whether you do have questions, but let's see. Orrie Fenn. Orrie, if you can stand up please. Orrie Fenn is heading up Underground Mining. So if you've got mining questions Orrie will address and answer those. Frank Saieva, heading up Energy & Industrial. If you want to know what the plans are in the power sector and the petrochemical space and when we expect to see these opportunities finding its way into the order book, Frank can answer that very well. Then we have Jerome Govender. Jerome is heading up Infrastructure & Building. You all know Jerome. And Neil Siford. Neil is representing Kevin Gallagher who cannot be here today. Neil is the CFO in Clough. And any questions that you may have around Clough and our Oil & Gas platform Neil will answer. Any questions, and then I will direct it to the relevant platform executive to respond to. Are there questions?

Male speaker
Maybe one for Orrie. In terms of the pipeline that we see in the mining side of things, can you chat to the risk profile or the type of contracts that you will be taking on for Venetia, Kalahari and [unclear]? Is it [inaudible]?

Orrie Fenn
[Inaudible]. If you look at the contracts they are predominantly in the Americas and Australia. Those are cost reimbursed [unclear] so there is very little risk there. The only risk we have are the contracts we have on the [unclear] which are very [unclear] contracts. If you look at South Africa [inaudible segment]. If you look at the overall risk profile it is not high risk. [Inaudible segment]. But I think going forward we are pretty comfortable with the risk from a contractual point of view provided we deliver on our promise and our productivity.

Henry Laas
Thanks for that. Any other questions?

Standard Bank
The order book shows significant growth in the book for Underground Mining. Is there specific strategy that is being followed [inaudible segment] in certain markets? And could you provide a view of what the split is going to be for Underground Mining going forward? Will it be predominantly a Sub-Sahara Africa book or will it be an Australia and Canada split?

Orrie Fenn
If you look forward the large growth in the book is in Africa, and specifically in South Africa. That's where the biggest growth is. In terms of the...sorry, the second question? We follow what we call a life of mine strategy. So what we do particularly well for all the regions is once we are working on a mine we tend to stay there and the scope keeps increasing. There are some great examples of that particularly in Canada and the USA. So we do follow a client wherever they go. We look at the risks from a country risk profile. But that's the strategy to follow the major mining houses, but not exclusively.

Henry Laas
What you must understand is that each of these platforms operates in markets which are very cyclical. So is the mining market. It is a very cyclical market. And over the past couple of years the commodity cycle was down. And we know that many of the mining companies were cutting back on capital expenditure. The consequence of that is the opportunity for us in the market was also getting less. I believe we are at the point where we see capital expenditure on underground mine operators coming back. And that is what we are experiencing in terms of our tender activity. About 50% of the work that we do is not on new mines. It is on existing mines. It is expansion capital on existing operating mines. And as you know a mining company has got a certain production profile that you need to maintain to keep your unit costs down. You can delay your expansion capital only for so long. But you need to come at some stage to that expenditure again to open up new areas for mining so that you can maintain your volumes. A lot of what we see happening now is new work coming through, but it is also a lot of brownfields expansion that is coming through. A couple of years ago this platform contributing about R600 million at EBIT level. And the past year it was about R250 million. Maybe it can go back to that level again. But it is cyclical.

Female speaker
Hi everyone. Just two questions from me. Can you give us an indication of the short-term outlook for the North American business? Previously it has been a bit of a tough year for North America. Margins are quite low. Additionally to that, in which contract [inaudible segment]?

Orrie Fenn
[Inaudible segment] Canada, the USA and then South America. Canada is in the process of [unclear] for a R1 billion contract to rehabilitate two mine shafts in northern Ontario. That is not in the slide that was shown in terms of new orders. That is just being finalised. If you look at the United States, the United States in terms of tender activity is through the roof. It is going to be a challenge there to start some of these projects which is a nice problem to have. In South America this year we took some costs. We took 100% [inaudible] and we ran out two problem contracts. So that affected the North American results and we don't expect that going forward. In fact we see increasing tender activity and we have just been awarded a couple of small contracts in South America. So in terms of the North and South America it is looking very promising in terms of getting that order book back and improving that margin.

Henry Laas
The project in South America runs out in about April of next year. We have provided for what we believe the potential is to completion. You never know whether you've got it right. It may be that the loss is a little bit bigger, and we will have to take it through the income statement. If it is less then we will release part of the provision.

Female speaker
You've got quite a lot of growth potential coming through on this business. Do you expect to be able to utilise a lot of the capex you currently have in the business? Will there be potential for significantly less [?] capex going forward?

Orrie Fenn
The capex we use is used on existing projects. We have some depreciation in terms of [unclear] but that is mostly in the [unclear]. Otherwise we don't have a lot of excess capital across the world. In terms of new projects going forward we would need to acquire capital for those. But we don't have an over-abundance apart from the capital equipment lying around in this platform.

Male speaker
You spoke about bolt-on acquisitions to boost your engineering expertise. Just a question on where you're looking at. The trend in the last year has really been [inaudible segment] in the smaller South African [inaudible segment] to the extent that many small independent consultant companies left. Are you looking at these for bolt-on [unclear]?

Henry Laas
If we talk bolt-on it means it is very small. And we are planning to do four in the current year. We have already announced one. It was $5 million. There is another one for Clough on the engineering side. It is electrical and control systems, that part of the business. It will be bolt-on, which means it is small again. It is a business that is well positioned in the current market which they serve. There is engineering technology and capability that you can supply across industries, so the idea is to make an acquisition that will bring that into the oil & gas space and support Clough on that basis. So that will happen. In the Energy & Industrial area there are two that we are looking at. It is more on the operations and maintenance side. It is not like consultants who do upfront pre-feasibility work. It is more operation type work on exiting petrochemical and power stations. It is also bolt-on.

Male speaker
I think one of the key points for shareholders in Murray & Roberts is sustainability going forward. What you see there is [unclear] coming off, Kusile and Medupi are coming down in construction. Maybe we could get a feeling or what the dynamics for that market is over the next few years and how that plays out.

Neil Siford
I think we had the discussion the other day. We will go around it again. The order book closed at $1.7 billion. I know that is down, but still high in historic terms and it gives a large percentage of coverage particularly in FY15 and some into FY16. When you look at that order book breakdown you see the construction being a small part of that and large elements of commissioning brownfields and engineering, which is really where we see this going right now. That construction phase has been around the L&G projects in Australia, you can only build a plant once. There is still some work there particularly on the east coast and I'm sure there will be other construction opportunities in the near term. But it is tailing off. There are significant opportunities in both engineering and commissioning and brownfields on existing jobs, and further scope there, and on new contracts.

And in terms of near term opportunities that was only $130 million at this point in time. When you look at the pipeline that we put up there, another $1.7 billion, and equal to the order book we have today. And beyond that there is a number of projects with traction. So there are still opportunities in Australia. I think alongside that Clough is going through a transition from a reliance on Australia and looking to expand its presence in global markets. And obviously the global oil & gas market is a lot bigger than the Australian P&G market even at the height of the boom. And we see that in areas like our commissioning business in Korea, in re-establishing our presence in Indonesia, in the acquisition of CH4 in the United States which is moving very quickly into an L&G

economy, in further bolt-on acquisitions in this space, and in Global Marine opportunities in Africa, in East Africa, in West Africa and also in south-east Asia. Obviously that is going to take a bit of time.

But I think you're looking at a business that is sustainable at current levels over the next couple of years. We've gone through a consolidation phase. We've focussed on revenue and profit. You know what [unclear] low profitability. We are not going back to those days. We are now in the transform and transition phase. The growth phase will come in two or three years time as we move forward into 2020. So you're not going to be seeing a lot of growth in the next couple of years, but you're not going to see profits falling away. The business is sustainable. We pause for breath before we go on again. There will be no resting on the laurels [unclear]. I hope that answers your question.

Henry Laas
That is pretty nicely done. We still don't know really what the answer is. The business is going through a transition phase. I think if Clough can maintain their earnings for the next couple of years at current levels that would be our expectation. But we have high hopes for beyond that. As I said in the presentation, it is going through this phase and we are not able at this stage to have a firm view of where the new base level will be established at. It is going through a transition. Are there any other questions? There must be questions for Frank and there must be questions for Jerome. Just to remind you again, Frank is our Energy & Industrial guy. Do you want to tell them about work that you're doing, Frank, the opportunities that you're pursing?

Frank Saieva
I think just to lead on from what Neil was also saying; there is a huge development in opportunity in both the petrochemical and oil & gas expansions and the stay in business operations in South Africa and East and West Africa. Murray & Roberts has four or five years ago disbanded what was then an engineering conglomeration called Murray & Roberts [unclear] Services. Was it the right decision? One can look back on it and query it. But certainly in the power programme because of that decision [unclear]. But the challenge now is for us to re-establish those engineering services. There are enough opportunities around where we can do that on the back of those opportunities. I mentioned or Henry mentioned earlier the petrochemical business. We haven't done that type of work for Sasol for some time. And they need large, stable players in the business. So we've had very encouraging development with them. It took us two years to get back on a very vigorous selection process of the tender list. Because of the type of work that we could become involved in we are hopefully developing those relationships and trust in our abilities enough that we are able to get into that market.

But that also leads us then quite naturally to follow on any other opportunities that happen with Ghana and their oil development. We are there. We have been appointed the EPC contractor for the development of the Takoradi Port. Then also on the east coast, Mozambique. We opened the office in Mozambique specifically focussing on developing our opportunities not only in the oil & gas and petrochemical space there but also other infrastructure opportunities, power, water and the like. So that is one of our main thrusts. And the main thrust is the renewable space. We are quite well positioned, and as these projects come to financial closure this year hopefully we are able to then lever off those relationships and opportunities as they arrive.

Henry also spoke about the cycle within the minerals and processing industry. As we see the market develop on underground mining that market has to go through companies. To increase their throughput they need to spend capital on processing facilities. That is where our attention is turning to at the moment. We believe we are probably between six to 18 months behind the miners and we should start seeing those opportunities coming through in the early part of next year and the latter part. In that process Orrie is focused on the larger mining companies. The mid-tier companies are sometimes more nimble in terms of expansion. So that's where our focus is at the moment.

Henry Laas
Thank you, Frank. Are there any questions for Jerome, or something you would like to share with the audience?

Female speaker
Can I just ask for some commentary? The past couple of years [inaudible segment]. Is that going to continue? Do you think there are any further cost reductions to be done? And can we expect [unclear] costs coming through again? And a similar question for Jerome with regards to cost reduction in Construction Africa.

Neil Siford
We saw a number of initiatives within the business [inaudible segment] any more lease costs coming through. We are moving into fit for purpose accommodation. [Inaudible segment]. We are also looking at how we structure the operations side. [Inaudible segment]. There is a lot of opportunity for [inaudible segment] and a lot of focus in Australia on [inaudible segment]. So that is the strategy in Australia. We have also been looking at corporate spend and what they do. [Inaudible segment] and it will be a fit for purpose [inaudible segment] to drive further costs down and maximise the [inaudible segment]. I'm not saying it is going to be as big as it has been in the last couple of years. That was low-hanging fruit and it is getting harder, but there is still a lot of work going on.

Jerome Govender
We are operating on a really tight margin. So whether we are in the Middle East or in parts of Africa or in South Africa the only way we can translate those really tight margins into some EBIT and contribution to the group is to manage our costs but also to manage more operations. One of the focus areas that we've got up there on Henry's slide is operational [unclear]. What we want to do from that perspective is not chase glamorous type of work. Get work at decent margins and focus on just delivering it. And that is really important to us. On the cost side you may remember that about a year or two ago, actually about 18 months ago, we had ten different operating businesses within this platform. We've reduced that over the last few months to just four main operating clusters. So we've merged our civils construction business with our roads and [unclear] business into one entity called Murray & Roberts Infrastructure. We reduced our Middle East operation down to almost a third of what it was previously. We closed down our offices in Qatar and Abu Dhabi and we have been streamlining our back office here in South Africa between our buildings Gauteng and our buildings Western Cape operations. So we are really operating a very lean operation. There is very limited opportunity for further cost reduction.

Henry Laas
Thank you very much. Thank you for the questions. I think we need to wrap it up, Ed. We've got unfortunately other commitments we need to attend to. But thank you very much for your time and listening to us. Thank you.

END OF TRANSCRIPT