Conference call transcript

24 August 2017

ANNUAL RESULTS PRESENTATION

Ed Jardim
Good afternoon ladies and gentlemen. Welcome to the Murray & Roberts annual results for the year ended 30 June 2017. A special word of welcome to stakeholders on the webcast as well as those on the call. Just before I handover to Arthur Thompson of the Investment Analyst Society to do a welcome for us I would like to talk you through a quick safety brief. In the unlikely event of an emergency you have two evacuation options off of this floor. The first is to my left out these doors and left again towards where the restrooms are. There is an emergency evacuation door. Please break the glass and the door will release. Make your way down those stars to the ground floor out and around the building. And the emergency assembly point is in the public parking space across from the building. Your second option to evacuate off the floor is out the door to my left. Move towards the lift lobby. There is a set of 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 would have come in this morning, and make your way across to the public assembly point in the parking space across from the building. With that, Arthur, I would like to welcome you to open for us please. Thank you.

Arthur Thompson
Thanks very much. I'm delighted to be able to say you have invited the investment analysts again for the umpteenth year and it is really a great privilege to be here. So thank you all for having us over here and telling us about the company and how your new platforms are going, giving us some strategic insight into the future to the extent that you are able to and also just telling us about the various challenges and the changes within the company. So thank you very much and over to you, Henry.

Henry Laas
Good afternoon. Welcome to all of you. Ed, thank you very much, Arthur. I would like to extend a special welcome to our chairperson, Mahlape Sello. Welcome, Mahlape. Unfortunately Mahlape will have to excuse himself during the presentation as he has got another commitment. And good luck with that. I would also like to welcome Suresh Kana. Suresh is a non-executive director of Murray & Roberts and he will take over as chairperson of the board at the AGM on the 2nd November. So welcome, Suresh. Glad to have you here. And also Ntombi Langa-Royds, one of our non-executive directors, thank you for making the time to attend. We also have two very important guests who have just arrived. And I'm not going to introduce them now. I will introduce them during the presentation. But I'm very glad that you could make it and I'm glad to see you here. Welcome.

Murray & Roberts is very excited about where we are today in the history of the group. We have reached a point at the beginning of this new financial year 2018 that we can say without any doubt that the group is a substantially reshaped organisation compared to what we've seen previously. It's a multinational business. It's a business that specialises in engineering and construction in the natural resources sector. And we provide our services into three main markets, the Oil & Gas sector – Peter Bennet is the CEO of that business – the Underground Mining business – Orrie Fenn – and then the Power & Water business – Steve Harrison. So welcome to all of you. As I said Murray & Roberts has reached a very important point within our history. I was just saying yesterday in some of the interviews when you look at Murray & Roberts today it is a glass that is half full. It's not a glass that is half empty. We have had a number of difficult trading years and the market has been tough generally speaking. And I think we've been through a number of years of reshaping and reorganising the company, and we have arrived at the point now when we can say we are starting the new financial year as a fundamentally reshaped organisation.

I said we are a multinational company. Every time I look at this map I just get a deeper appreciation for the extent to which Murray & Roberts has established itself as a multinational company. Our approach is to have a permanent presence in the form of an office in those regions where we believe is the best opportunity for our business to develop projects and to undertake work. However we believe in having good relationships with our client base and for that reason we will support our clients in their work in geographies where we don't have a permanent presence. It is a significant footprint that we have developed over time. And there is still a bit more work to be done, but I think we are generally established in all the geographies which are important for the three platforms that I have just disclosed. So for us the fact that we are diversified as we are, one of the elements which are important in considering how we mitigate risk in the business as a whole to have this diversity that you can see on the map is important to us and it does bring some resilience to the group.

We have spoken a lot about the new strategic future. I'm going to sum it up for you in the following slide. But we have been travelling down this road for a number of years now. The first point I want to make is that we are today a specialist engineering and construction group. We are no longer predominantly a South African construction company specialising in civil engineering and building work. We have moved on. We have sold the Infrastructure & Building platform. And Jerome Govender is in the audience. When we sold the business Jerome was the CEO of that platform. It was taken over by the Southern Palace Group. And I think it's a very good business. It's a good business provided you're the right owner of that business. And I think with the Southern Palace Group as the new shareholder of that business they will do great. But for Murray & Roberts it was important to bring that change about, and we're pleased about that. The most significant visible demonstration of change is the fact that our listing has moved on the JSE from the heavy construction subsector to the diversified industrial subsector, and that happened in March of this year.

Our growth strategy and business model is well defined. The new strategic future I will talk about just now. But for us it is very focused on the life cycle of a project, which means we are not only engaging in opportunities when it is time to build a project. We engage in opportunities and we need to consider whether we are going to participate in investment, whether we are going to do some early engineering work, whether we are going to participate in the construction, but also later on in the commissioning of a project, the operations of a project and eventually the decommissioning towards the end. As a group we are focusing on the natural resources market sectors. We are exposed to commodity cycles. We are exposed to commodity cycles, and we think that we are at the beginning of a new growth period for the group as a whole. That is demonstrated by the fact that we've got full belief that the metals and minerals cycle has turned. And we will see some evidence of that a little bit later on. The oil and gas cycle has not turned, and we are experiencing ongoing difficult trading conditions in the oil and gas sector. But there are early signs of better things to come compared to the very difficult couple of years that we have experienced in the recent past.

We have got a strong balance sheet. There are very few companies that have gone through a number of very difficult trading years and emerged from that with a balance sheet of a similar strength as that of Murray & Roberts. We've got R1.8 billion cash net of debt, nearly the same level that we had at the end of the previous financial year, notwithstanding the difficult year that we had in 2017. And we need to have a strong balance sheet in this business. If you are exposed to commodity cycles you must know that there will be years that are more difficult than other years. And you must have the strength and resilience to address the difficult market conditions that may come your way. And for that reason you must have a strong balance sheet. And I am very proud to say that Murray & Roberts has emerged after a number of difficult trading years with a reasonably strong balance sheet.

As far as our order book is concerned, the order book at R26.9 billion is not where it should be. I saw some articles this morning where commentators said R26.9 billion a "low" order book. They put the "low" in inverted commas meaning they've got a different view. For us a R26.9 billion order book is not where it should be. The order book should be R35 billion plus. That's where it must be. But what we do say is we believe that we have a quality order book. In that order book is an embedded margin that should enable us to achieve our aspiration of 5% to 7.5%. It's a quality order book, and an order book that has got value across the lifecycle of a project. There is engineering work in there. There is commissioning work in there. There is some construction work in there. But there is also operational work in there.

We've got confidence in the embedded margins in this order book. If we wanted to I'm pretty sure we could easily grow the order book to R40 billion. But we have to be responsible about how we grow the order book and the type of opportunities that we introduce into the group. The biggest risk the company is facing, companies such as Murray & Roberts, is that you bring risk into the business by securing order book that you will not be able to earn value on. If you lose money on a project the impact of that is very fatal. One loss-making project you need five or ten good projects just to make up for that. So the quality of the order book we think is good despite the fact that the Oil & Gas order book is very low, the Power & Water order book is low. But the Underground Mining order book is very strong. And that is part of the reason why we believe that the metals and minerals cycle has turned. We are very excited about the future of the Underground Mining business and we will hear a bit more about that just now.

So what is this new strategic future? What is the essence of this plan? I think the time is now right that we can summarise it in a few points that are extremely understandable to whoever wants to develop an understanding. The first important point is the fact that we are multinational, that we specialise in engineering and construction and that we focus on the natural resources sector. I said this morning when we spoke to the staff that if you play rugby you play rugby on a rugby field and it has got posts on both ends. That that is the playing field. If you look at Murray & Roberts as a group that fourth point defines our playing field, the area where we conduct our business. So in terms of our new strategy that is where we play our game and that is where we want to create value for our shareholders.

What is giving us confidence about this plan? Ultimately we believe, and that is what is shown in the graph on the left-hand side, that global economic growth will continue. Global economic growth will continue at different pace, different times, but overall the global economy will grow. If the global economy grows demand for energy will be there. If there is global population growth and accelerating urbanisation as we see today demand for natural resources will always be there. So fundamentally we believe that the demand will be there. But having said that we know that it is a cyclical business. Economic cycles are cyclical. And we are currently still experiencing the impact of a very tough down cycle. But as I've explained we believe we are emerging out of that especially as far as the metals and minerals market is concerned.

The second point in yellow is the concept of providing services across the project lifecycle. You will see later on when we get to the segmental reporting if you take the Oil & Gas platform as an example if our service offering was clearly around the construction of infrastructure there would have been very little opportunity for Clough. They are in building and construction but there are no new projects being built. And if your service offering is to participate only in the construction of infrastructure it is not going to be good. So you can see the order book has got some engineering value in there. It has got some commissioning value in there. So the project life cycle is a very important concept for us. We need to provide a service across the project life cycle.

The third bullet point is about engineered excellence. I want to explain it to you. What does engineered excellence mean? It is not engineering excellence, it is engineered excellence. So we want to achieve excellence in whatever we do and we need to engineer that outcome. Whether it is health and safety, whether it is building a project, whether it is the way in which we develop our people or the way in which we engage with our stakeholders we need to do it in a way that is excellent. And engineered excellence means that you need to plan for that outcome and you need to put plans in place to achieve that outcome. Engineered excellence to us is not negotiable. And when you couple that to operational excellence which is not having loss-making contracts that is very important to us. For the past financial year excluding the Middle East we had only one project in the group that was loss-making. I'm not sure how many projects we have. Maybe 150, maybe 200 projects at any time of different sizes, of which one was loss-making. I don't want to mention names but there were reports yesterday and this morning about other companies that have 30% of their projects losing money. So engineered excellence to us is not negotiable.

The second-last bullet, we need to achieve growth organically and through acquisitions. Acquisition is a very important part of Murray & Roberts' future growth aspirations. I will say a little bit more about that just now. But without that organic growth by itself the opportunity in the market is just not there for us to achieve the organic growth we believe would satisfy our shareholders. So we need to find smart investment opportunities where we can invest, we can get returns and we can grow. And then finally enhance shareholder value. Ultimately that is what it is about. A business that does not enhance shareholder value I don't think you can justify its existence.

Ultimately it is about creating value to the shareholders who make their money available to organisations such as Murray & Roberts. But the definition is not only shareholders, it is actually all stakeholders.

I said earlier on that Murray & Roberts' glass is half full. It is not half empty. The question is – and you must answer that question – is the new financial year, FY2018, now the start of a new growth period for Murray & Roberts as a group? I've concluded that it is but you need to make your own conclusions. Let me take you through the thinking process. From a strategic point of view the strategy is now well defined. I have given you a bit more detail about what the future plan is all about. The sale of the Infrastructure & Building platform was effective 1st April this year. And Jerome is in the audience and I'm pretty sure that business will do well as part of the Southern Palace group. The JSE subsector change I've mentioned. Then the exit from the Middle East on which I will say a little bit more just now. And then the final asset that we are in the process of disposing is Genrec. And we are hopeful that before the end of the first half of this new financial year, meaning December 2017, that we would have disposed of that business.

Getting back to the Middle East. The strategic decision that was taken by the board was to exit the civil engineering and building market as a main sector. We always undertake some civil work in the complementary markets in the other platforms, but as a main market sector civil engineering and building we decided to exit. That business within the group comprised of several businesses in Sub-Saharan Africa but also several entities in the Middle East. At the time we sold the businesses, the businesses in the Middle East were excluded from that sale. So in my definition the Middle East is a discontinued operation. We are closing it. We are not bidding for any new work. We are going to exit the Middle East sometime during this financial year 2018. The last project will be completed in March, which is the Marriott Hotel that we are building in Oman. It will be concluded in March next year. So during the course of 2018 we will exit all construction activities in the Middle East. So that business was not sold. In my book it is a discontinued operation.

Where is Graham? Graham is our auditor from Deloitte. And he is right. When you use IFRS rules we cannot yet classify that business as a discontinued business. We are abandoning this business and it will in time be discontinued. So that is the correct interpretation. So it is reported as part of continued earnings, not as part of discontinued earnings, but it is completely distorting the performance of the continuing businesses in the group. I said earlier on it is Underground Mining, it is Power & Water and it is Oil & Gas. It has got nothing to do with a building business in the Middle East. So that business is not part of the group. It is not part of our future. And when you look at the earnings profile of our continuing businesses we wanted to present that without the impact of the Middle East, and that is what we decided to do this year. That is why we talk about our continuing HEPS including the Middle East, which is for the group as a whole, and also continuing HEPS excluding the Middle East. And we will look at the detail just now. But I think the strategy is defined. It is in place.

There are signs of recovery in the natural resources market sector. The Oil & Gas order book of R12.2 billion is marginally up on what it was in December 2016 but it is down compared to June 2016 at the end of the financial year. But it is marginally up on December. The Underground Mining platform at R17.5 billion is a fantastic order book. It's a fantastic order book. And I'm going to say something about near orders just now. The Power & Water order book is down to R3.7 billion. It is declining. It is reducing as we are concluding Medupi and Kusile power stations. We cannot wait for Eskom to sign all these IPP documents that they need to sign so that the work can start on the George Biomass Project. The document has been signed off and other projects. So we are waiting for opportunity there. That business is in a difficult space. Underground Mining as I said is a fantastic order book.

In that order book of R17.5 billion is a value of R4.8 billion that has been in that order book since 2015. I am going to ask any Murray & Roberts employee or director to answer this question. Anybody in the audience, tell me which project is in the order book since 2015 at a value of R4.8 billion? Kalagadi mining. And I would like to welcome Daphne Nkosi, who is the majority shareholder and the chairperson of Kalagadi Manganese. Daphne, if you could stand up. Welcome, Daphne. And Thulo, who is the CEO of the business. Welcome. And I think I can formally announce that the project is proceeding, that the funding structures have been agreed. And I know it was a very big task to arrive at this point, but well done with that. The project is starting with a few months' mobilisation period and we are hopeful that by January next year that we will really be in production. So Daphne, welcome to you and Thulo, and thank you very much. Well done. It was a mammoth task to put the funding in place for this project, and I hope that it will be a great success and a value earner for you and your organisation.

The legacy issues in the group are all largely resolved. We settled Gautrain. We have de-risked the balance sheet as far as Gautrain is concerned. And I want to say we have had a very big value of uncertified revenues for many years on the balance sheet. We have settled a substantial amount of that. We started off with GPMOF a couple of years ago which was a big one. We settled Gautrain. We haven't lot any value on uncertified revenues. We haven't settled any claims that we have taken profit on in the form of uncertified revenues where we didn't close it out at a better value than what we had accounted for. So yes, it has de-risked the balance sheet. And there is still remaining uncertified revenue, but we believe that we were prudent in the way we have accounted for it and with the support of the capital projects team that have assessed and tested those values we are confident. We are confident that the uncertified revenue will be realised that we have in the balance sheet.

Then the Dubai Airport claim. The Dubai Airport claim is a claim that has been with us now for ten years. The project was completed in 2008. It is 2018 next year. And in May next year we expect an award on this. The arbitration is underway. We had a board meeting yesterday and we had Denton's who is managing this arbitration for us in the room and presented to the board. And we feel that the arbitration is after many years getting to the point that there is going to be an outcome in May 2018. So the legacy issues we have largely resolved and we are moving through that and putting it behind us. Getting back to the Middle East, we had a substantial loss in 2017 of R570 million. And Daniël will give you some more colour around the R570 million. Why R570 million and where does it actually come from? The fact that we have accounted for that in the 2017 financial year again means emerging from that we are de-risking the business. We have got less risk now that we've accounted for that loss in the prior year than we had before we did so. We are moving through that. If you look at our headline earnings per share excluding the Middle East it is up 8% on last year. So the underlying platforms within the group, Oil & Gas, Underground Mining, Power & Water, and our investment in the Bombela Concession Company are 8% up on last year. However if you look at the group as a whole including the Middle East headline earnings per share are down to 72 cents compared to 178 cents of last year. And without this context it is difficult to really interpret the results. So the Middle East for us is part of a legacy issue. As I said it is largely resolved and put behind us.

Strong balance sheet and cash flow. Our gross gearing is 9%. It is down on last year. And our cash net of debt is R1.8 billion. As I said earlier on for me I think it's a reasonable result after a number of difficult trading years to have cash net of debt of R1.8 billion. And we feel confident in our strategy and our growth prospects. We announced not so long ago a share repurchase programme of R250 million. As of yesterday I think we've spent about R10 million. So we've got a long way to go on the share repurchase programme. We have announced the investment in the Bombela Concession Company where we are increasing our stake from 33% to 50%. That will come with an investment of R405 million. And I want to clarify something. Unfortunately journalists got it very wrong. We announced the day before yesterday. We put out a SENS. The SENS was very clear in terms of what the investment was all about. And then there was a journalist that wrote an article and said that Murray & Roberts is acquiring 50% of Gautrain. It was put out online and it was yesterday in the newspaper. And that's not true. Gautrain is a government asset. It belongs to the state. We are not buying Gautrain.

As a consequence of that article, had to put out a press release and there was a lot of confusion in the market yesterday. What we are doing is we are increasing our stake to 50% in the Bombela Concession Company which is a special purpose vehicle that was established to build, operate and maintain the Gautrain system which is the asset belonging to the government. So we are increasing our investment to 50%. There is a comment yesterday that said that this is a premature announcement. It was not a premature announcement. Government is fully informed informally about our intentions, and I had a discussion with Jack van der Merwe yesterday afternoon and he agreed and confirmed that. So they are fully aware and in principle supportive of the transaction. But we cannot apply for formal approval until the parties to the transaction have come to agreement on the terms. When we came to agreement on the terms and signed a memorandum of understanding we had to put out the SENS.

And the SENS was very specific in saying it is subject to conditions precedent. The first is approval from the Gautrain Management Agency, which is the government entity that oversees the Gautrain project. It has to be approved by the Competition Authorities and it has to be approved by the funders of BCC. In principle the funders of BCC are supportive of it. In principle the GMA, the Gautrain Management Agency, is supportive of it.

But the formal approval has not been applied for. It is going through the Competition Authority for a very technical reason, and I have full confidence that all three of those conditions will be met. So I hope that clarifies the scenario or the issue or the confusion that we had around this announcement about the increased investment in Bombela Concession Company.

The board resolved to maintain a dividend of 45 cents a share, the same dividend as we had last year. Our dividend policy is a cover of between three and four times. When you calculate the cover on 45 cents per share it is outside of that band, but the board considered the Middle East but also considered the cash position within the group and also considered the fact that we expect FY2018 to be a year where we will achieve earnings growth. And for that reason we felt that it was the right decision to maintain the dividend at 45 cents a share. And then obviously our position in the USA. Peter is under pressure to get that done. I said this morning when we presented to the staff we budgeted for this deal to be concluded in December. I think it is optimistic, Peter. We will give you grace until June next year. So we are really focussing on acquiring a business in the US and we've got people working with us. We have identified a target that has been reduced to a short list and we are going to establish what the chances are of doing a transaction before we have a more targeted approach. So this is moving ahead.

Ladies and gentlemen, based on this disclosure I came to the conclusion that we are at the start of a new growth period. And you must come to your own conclusion based on this information. The salient features for the past financial year, our revenue is down to R21.4 billion compared to what it was the year before. I already said that the earnings excluding the Middle East headline earnings per share are up 8%. Attributable profit is down to R48 million. But again I will explain to you just now why and it is very easy to understand. Cash maintained at R1.8 billion. Dividends maintained at 45 cents per share. And then the order book R26.9 billion. Those are the salient features of the financial results. Attributable earnings down to R48 million. I should give some colour to that. There was a R570 million loss in the Middle East which impacted this result. This was an exceptional item. It should really not repeat into the future. After the settlement of the Gautrain claim in December we had a look at all the provision that we have carried in various parts of the Bombela company structure and in the civil joint venture there were provisions that were no longer necessary post the settlement and there is R160 million profit that came from that. And there is the R170 million which was a loss. That is the net present value of the VRP process. If you just nett off the last two items, the R160 million of profit from Bombela and also the R170 million NPV charge you are left with R570 million which is the loss in the Middle East. If you add that back to the attributable profit of R48 million and you're not too far off where you were last year. So you need to understand this context when you interpret the results.

What we feel very grateful about was the fact that we were able to achieve a lost-time injury frequency rate of 0.52. Regrettably one fatal incident. And we are saddened by that. But you also need to look at the performance holistically. A 0.52 lost-time injury frequency rate is a world-class performance. That is the aggregate of the performance in Oil & Gas, Underground Mining and Power & Water. But if you benchmark each of those businesses or platforms against their peer groups in those platforms this is a world-class performance. I did thank our executives and people this morning for that. This is great, and we would like to improve on that into the future. I mentioned the sale of the Infrastructure & Building businesses, also a salient feature of the past financial year. Our subsector move to diversified industrial is important. And then the settlement of the Gautrain development period claims which has de-risked our balance sheet.

Attributable earnings, you are familiar with that graph. We present it every year. What we are trying to show is if the business in the Middle East was to be excluded from the group, if we were already beyond closing that business, that is the impact of that business on the current year's results. So that is where it would have been, attributable income from continuing operations, if it was not from the Middle East. We had a good performance in the Underground Mining business. It was marginally down on last year, but a strong performance. We had good results in the past year from the Power & Water platform. Our investment in BCC continued to yield good returns. We had a significant reduction in contribution from the Oil & Gas platform, around R500 million EBIT down to about R200 million EBIT. That is a major swing. We had the loss in the Middle East that I've mentioned. And we didn't have forex gains in the current year. You will see when Daniël speaks to you the significant forex profit that we had in the prior year of R223 million which came from the restructuring of the international business structure. So when you compare one year to the other there is a big movement in the forex line. Up to discontinued level the NPV value of the VRP settlement I have mentioned. But also there were a lot of things that needed to be closed out and cleaned up under the discontinued operations section, and that is the impact of all of it. So I think we are coming out of financial year 2017, traded through a number of difficult trading years, with a business that I feel is a lot less risky.

Our safety performance. The lost-time injury frequency rate of 0.52, you can see just for the past three years how that has been coming down. 0.79 in 2015 to 0.52 in 2017. To achieve that a huge improvement. However if you go further back in history the 0.79 is a significant improvement on what it was three years before that. So over a duration of five to six years the group has really managed to undertake our business activities with a significantly reduced risk to our employees. Ditebogo Phuduhudu is the gentleman that lost his life. He was electrocuted on the Noupoort Wind Farm Project early in the financial year. And that was a very sad experience. One thing I want to share with you, just a personal thing, is I've worked my entire life in the mining industry and in the engineering and construction sector in my entire career. And I haven't had the opportunity or the privilege to be able to say that I went through one financial year without a fatality in the business under my watch. And I hope that 2018 will be that year. I hope. Daniël, over to you. Thank you very much.

Daniël Grobler
I was appointed CFO on the 1st April this year. And what Henry didn't tell me is I was going to present the worst result for the past six years on the 2017 year now. So thank you Henry. Challenge accepted. So what I'm going to do on the next slide is try and tell you the seven key non-recurring we had in the current financial year. So what we want to try and compare is the top line which is the R483 million and we compare that to line three which is continuing EBIT excluding these abnormal items. Henry mentioned a loss in the Middle East of R570 million. That comprises of that R340 million as well as the R230 million operational losses.

So of the R340 million these could have almost unavoidable in the current financial year. So if we start with overhead and legal fees we had to incur the overheads to complete the project and we have significantly scaled down on these. In terms of legal fees we had to incur the legal fees to put the Dubai Airport claim into arbitration. And we expect that amount to be about half of that in the next financial year. The Zayed University contract you will be well au fait with. It is a contract that we completed in 2011. The contract went to DAB ruling. And in the current financial year unexpectedly we lost this contract in arbitration. It was about R100 million that we lost in the current year. In terms of revenue write-down – we are not allowed to use the client's name here – a client called us in and said, guys, I know you have valid claims and variations on the project, but we need you to sign a compromise agreement and walk away from these claims or variations or tomorrow I will pull the performance bonds. So the next day we received a call from the bank and the team hurriedly had to go and sign a compromise agreement. So of the total amount R340 million were also unavoidable costs.

If then you go to the operational losses on all four of these contracts the biggest cost was incurred on the Mafraq contract. So it's a hospital we are building and it has been going since 2011 on this contract. And the loss on that contract is categorised by three items. The first was we took a more conservative view on uncertified revenues on this project. The second was we took a more conservative view on not only the cost to complete but the cost savings on this project. And then the third one which is probably the biggest element of this claim was cash availability the Middle East. So we had a contractor by contractor on a weekly, monthly, almost quarterly basis that the contractor falls over. They haven't got enough money. You've got to go back to the market, get a new contractor and they're at a more expensive rate. From the time that they fall over until the time that you get the new contractor on site time has passed, and time costs money in these environments. And we incurred a substantial loss on that contract. Now, on the Mafraq contract we are due to give a substantial portion of work over to the client as at the end of November this year. So we are about three months away. We had a call with management last week and they said that they are relatively on track in terms of delivery of this contract by the end of May. So each month as we go ahead with these projects they get de-risked. And as Henry said quite rightly we are not out of the woods yet. There may be still some unknown losses to come in these projects. But I think the guys have done well in terms of delivering on these projects.

The next line relates to a release of provision for BCJV. I think the chairlady of our company has been in the company the longest, about nine years. I think it's the first time our chairlady has seen a profit on this line for this specific company. So we have lost R2 billion in total in building the Gautrain on this contract. So these losses were funded through intercompany loans. These intercompany loans had to be fully provided for. We took uncertified revenue on this contract, and of our uncertified revenue and the loans that we took we came to a position with Province where we could reach agreement on settlement. And as we settled we reversed all the intercompany loans. We reversed all the intercompany provisions. And then we came to a position where we were only provided for to the extent that we only made R160 million profit on this contract in the current financial year. That is not expected to be repeated in the next financial year.

On the Bombela Concessions Company I want to make one correction. We currently hold a 33% stake in this company. So the announcement was to increase that 33% to a 50% stake. So in the prior year the adjustment, the fair value adjustment on the contract was R150 million. Of that R150 million it increased to R250 million in the current year. How fair value accounting works is you take your cost outflows, you take your cost inflows, you discount them at a rate, and we used 18.5%. And one of our big cost elements to this contract is our operator fee. So we negotiated a better operator fee, which was the third element. But if you wanted to ask really what this contract in 2018 should be then we save that element on that input into the model. So if you take those cost savings and plug them into the model in the current financial year we had a cost saving of R100 million in BCC. Now, because of us increasing our stake from 33% to about 50% of that R100 million, R40 million should be sustainable going into the future.

The last element there, I wasn't being pedantic. I put R23 million loss in the current financial year. The reason I've put that was in the prior year that profit was R430 million in the prior year. It is a substantial swing in terms of forex losses year on year. So if we take the R487 million adjusted for all of these items you get to a continuing EBIT excluding abnormal items of R820 million. In the same vein if we drop to discontinued operations we've got the VRP charge. And I think we talked about what we did. The net present value of our future obligations is R170 million. In Genrec, a company we are in the process of selling, we incurred a loss in the current year of R68 million. We made substantial gains in terms of selling this entity. We received a sound offer. We received a signed term sheet. We are in the process of finalising the terms of this term sheet. That will be funded by a due diligence. We have received that funding letter subject to the normal caveats. But we are hoping to close out that transaction in the calendar year 2017.

And then the last item relates to retained liabilities in the I&B business as well as historical items. So when we sold the I&B business we retained a number of assets related to our contract and we retained a number of retained liabilities. So the board sat back and said what the prudent thing to do is. Some of the assets we thought may not be recoverable so we provided against those. I can't give you the examples in public. But on some of the liabilities we also said we need to be more prudent in terms of these liabilities. So approach increased our liability on this project. That was offset by in place contracts in which we were able to settle some of the previous agreements and write back some of the previous provisions. This amount is R71 million in the current year that is not expected to repeat in the coming year.

If I go to our statement of financial performance also known as the income statement. On the revenue side you will see we are down R4.6 billion. The big driver behind that is the drop in Oil & Gas. That drop in Oil & Gas we will get to in the segment reporting but is in line with what is happening in the industry. I am not going to spend too much time on EBIT. I've told you about the fact that the R133 million over there includes forex profit of R420 million. Our interest expense was better in our current year twofold. We received money from the settlement of the Gautrain claim which helps us boost our cash position. And second is the resolve to pay off the remainder of the Australian debt that we have got relating to the Australian revolving facility. There is not too much more to be said on that slide.

So going on to the next one, the statement of financial position. I know that as the balance sheet. So we will start with property, plant and equipment at just over R2 billion. A lot of questions have come as to what that is made up of. R1.7 billion of that relates to the mining industry. About R250 million of that relates to the Oil & Gas industry. And the residual R100 million relates to Power & Water. If I drop down one line to other non-current assets you will see that they have improved by about R1 billion. That improvement is mainly driven by the resolution of the Gautrain claim and the fact that we wrote off uncertified revenue. So what is sitting in that balance is firstly the investment in the Bombela Concession Company. Secondly it is our goodwill that we hold in the company. Third is our uncertified revenue that we are still holding on the Dubai Airport claim. And the fourth one is intangible assets, and I can give you a breakdown a bit later on. No major movement from current assets.

Cash and cash equivalents came down R442 million. Of that R442 million, R152 million of that related to a decrease in foreign currency. Net liabilities held for sale came down significantly as a result of the sale of the I&B Platform. What is left in there is Genrec of course. It is a small element of Mitsubishi and Hitachi and it's a small element of Clough Properties which is a business we are in the process of selling. What stands out was your shareholders' equity dropped from an amount of R7.3 billion to R6.6 billion. The main driver behind that is we've got a number of balance sheets within the group that are fair value. So what happens is the conversion of your balance sheet and in general your balance sheet gets converted at spot rates. It takes your income statement, the general income statement gets translated at average. And it takes the equity and the equity gets translated at average. So your spot rates year on year in the Australian market went down by 9% and the US market went down by 11%. And the average rates the Australian market was down by about 3.7% and the US market went down by about 7%. So that explains the main reason we show this equity coming down.

Your short-term debt remains the same. Long-term debt came down by R430 million. I mentioned the fact that we paid the Australian revolver. Quite an important point for me was that all your external debt that we incurred when we acquired the additional minorities within Clough has now been fully repaid. So that amount has been fully repaid and we are going through a process to refinance this liability. Other non-current assets, R445 million, that increased when we did the amount for the voluntary rebuild programme. No major movement on the other items.

We then go to Oil & Gas on our segmental reporting. What you will see is revenues year on year came down. And the big reason that your revenues came down is that the order book within the Australian market dropped. We've got a presence in Booth Welsh which is in the UK. You've got CH-IV which is in the US. They performed to expectation. But the general market came down. Construction we said this morning if you go back four or five years ago that was a revenue of about R5 billion. You will see that they made some revenue but the revenues that they made were not sufficient to cover trading activities. We have however secured two new projects and we see those reflected in the order book. That is helping to at least contribute towards that platform in the next financial year.

The overall marine operating profit of R71 million, the completion of the Saldanha Bay project had a very successful completion so the guys did well there. Brownfields and commissioning, the Wheatstone commissioning and hook-up had a strong performance. The comment that I will make is they started that project of a low base and they really performed well and the client gave them additional scope. And from additional scope came additional margin and they did really well on the project. We have announced to the market that we have secured a new project called the Ichthys project. And that is for hook-up and pre-commissioning and the guys have done really well in terms of mobilisation for that contract. And the expectation will be that they will really perform well on that contract that we will see the scope growth on that project. Each Segment's margin after direct overheads have been deducted should be enough to carry your corporate overheads. And we can see the drop in earnings in the current year was about R300 million. It seems that they have reached a plateau and Henry will talk more about prospects as we go forward in those various areas.

If we look at Underground Mining we start with the Americas. The Americas had a bit of a soft market. We saw a turning in the metals and minerals market within the Australian and African industry. America is a bit shorter. I will make a point that the R256 million of the Americas last year included a once-off profit adjustment for insurance of R60 million which will not be repeated. But we have had some very positive news out of the Americas over this past two weeks where they have secured some projects. And hopefully the market is at a turning point and we can see some further progress.

Australia had a very good year. They not only had scope growth on Indonesia and Karari the raise boring market turned up significant. As you know the raise boring market traditionally carries a very high margin compared to rest of the mining activities and they have performed well. In Africa the guys did well with operating profit of R124 million EBIT, R3.5 billion Revenue. The question is how that converts to 5%. The only reason why that is going to go up to 5% is if you increase your revenue by another R1.5 billion, which is not undoable. But it is a structure that I think is streamlined and we just need a bit more revenue within that platform. But overall a pleasing performance. You can see slightly down from R506 million versus R464 million, but the R506 million includes the R60 million Kennecott insurance claim.

If I then go to Power & Water I will then spend two minutes on Power & Water. In the past how we presented that was the power programme and then other. The power programme showed money and the rest showed a loss. And the market was saying what's going on here. So what we have started to do in the current year is just unpack what the rest of the market looks like. In the power sector we've got the power programme. We have also got Morupule, we've also got WFGD. And that together gives us the power sector. We can see that they still made a profit, but that profit was after the loss incurred on the WFGD project of R114 million. As Henry mentioned outside of the Middle East as well as Genrec that is our only loss-making project that we had in the group. Water is quite a new segment and I think we are going to gain quite a lot of traction in the new year in water. And what will happen there is that as the revenues grow and the margin on the projects has grown it should cover our overhead base.

Oil & gas is twofold. One is we set up an office in Secunda to offer a service offering to Sasol. We are looking at a second office in Sasolburg to really start servicing a complementary market which is called oil & gas. And we have also done a project in Ghana. That has done really well and that project has performed tremendously well. Electrical implementation, you will see low revenues but high margin contributions. This was a good result for that sector. It is a very good sector. And it services across all industries from mining to water, oil & gas. So it's a very good industry and that has done well for us. So the challenge for next year will be a big part of that order book is in the power programme. So we need to replace the order book for the rest of the power programme including power to offset the order book in the oil & gas industry. The new power stations coming out to the market we don't see those concluding until 2019. Bombela Fair Value Adjustment. Included in that amount is the R150 million earnings adjustment I spoke about as well as R160 million profit.

So now we go to what are the different contributions from the platforms towards the group. So you see that we brought in investments. So investments is a fair value account so it carries no revenue with it, so the only contribution that it will bring is it will bring a contribution towards EBIT. So if you include that you will see a healthy contribution from all three platforms in EBIT which gives us economic resilience. If one platform is down, like Oil & Gas is down at the moment – we know that can go well up to what it was again – at least the rest of the platforms are contributing. We brought in the comment that your investment return is not subject to economic cycles. If we then move by region if we look at geographical split what you will see is from a revenue point of view almost 60% of our revenue is generated outside of South Africa. What we have done is we have brought in Bombela's investment into South Africa. South Africa you will see at the moment is contributing 35% of profit and 65% of our profit is generated abroad. This de-risks us as a business. So yes, there is political instability in certain countries, but the diversification between the platforms should shield us against these instabilities.

And then that is just the lifecycle of the projects. Construction is the largest contributor at the moment. Your construction phase on the project will always remains the largest revenue contributor as well as your profit contributor for the rest of the group. We are trying to grow maintenance as well as operations. Operations mainly would relate to your underground mining contract mining type of contract. But it is quite a healthy spread. But what we will derive from there is construction making up a big part of this. With regards to the Middle East, I have explained the losses in the current year.

Henry Laas
Thank you Daniël. Daniël took over as CFO on the 1st April and for this specific reason earlier on in the presentation I explained to you in the slide I had on the new strategic future I used the rugby field as an example because Daniël is a guy with many talents. A couple of years ago he played for South Africa. He played Sevens rugby for South Africa.

Henry Laas
Mahlape, I know you are pressed for time. It may be a good time for you to go. Thank you very much. Ladies and gentlemen, I don't want to spend too much time on this. We have spoken about the order book. This shows the strength that we had in the Underground Mining order book. It's a good order book. Total for the group is R26.9

billion. And as I said for me that should be R35 billion plus. That is what we have to do. From a geographic point of view 61% of the order book is still in the SADC region because of the strength of the Underground Mining order book. And a lot of that is in South Africa. We have the value of the power programme in there. And 39% is international.

Looking at the time distribution R13.8 billion of the R26.9 billion is to be delivered in the new financial year, 2018. Normally what we say is we have about 65% to 70% of your planned revenue secured at the beginning of the financial year. So that should translate into revenue of about R21 billion for 2018? Because when you look at our near orders we've got R7 billion in near orders. Having said that, R6.3 billion is in the Underground Mining platform. What I can tell you now is since the end of the financial year a position of R20.6 billion in Underground Mining in South Africa has been added to the near orders plus R1.6 billion in the Americas. So the near orders are really strong. And our definition of a near order is we have secured the work, we just need to finalise the T's and C's and get the contracts signed. So a very pleasing observation as far as near orders is concerned.

Oil & Gas is tendering on R18.7 billion of work. That is our category one. These are tenders that are ready and waiting for adjudication or in the process of putting a tender together. R18.7 billion, but the big value, the R494 billion, for Oil & Gas is in category three. That is identified projects where we believe we've got a reasonable chance of securing opportunity there. But we are not bidding on that work yet. We are not doing budget estimates for clients. We are not assisting in feasibility work. It is identified in a pipeline but timing is important as you can see in the heading of that slide.

Platform outlooks, there are three slides, one per platform. I don't want to spend too much time on it. You can at your leisure read through these points. But the conclusion is that the Underground Mining business is a business that we are bullish about. I mentioned earlier on the commodity cycle or the metals and minerals cycle. This is work that we always rely on from Macquarie. And what it basically shows is where the various metals and minerals find themselves in the commodity cycle. On the far right-hand side is when the cycle is getting to a point where it encourages new investment. And you can see how many of these metals and minerals have moved into this space. LNG is also mentioned here, but you will see LNG is still in a position where prices have to stabilise at a low level before you can move into a period of growth. So the LNG sector, the oil & gas sector, is lagging the metals and minerals sector. But metals and minerals is in a good space. That is why you guys at Kalagadi your investment decision comes just at the right time. Hopefully we can get this mine up and running so that you are ready to sell product by the time that the manganese price is really strong. So we need to get this mine up and in production so that you can benefit from the expected increase in the manganese price.

Power & Water, that is information that you can read. What I can say as far as the water business is concerned is City of Cape Town has released a number of tenders. They are on a very tight programme. The tenders need to go in on Tuesday night. There is no opportunity for any extension. There our guys will be working throughout the weekend to get those tenders ready for us to submit.

Key business risks. The Oil & Gas sector there is a risk that this sector will take longer to recover than what we are hoping for. And while there is a lack of large project opportunities it will be very difficult for Peter and his team to get this business to R500 million EBIT and above that. Underground Mining, I think the challenge there is that at some stage you will become constrained from a resource point of view. From a people point of view do you have enough people to man all these opportunities? Power & Water, the end of Medupi and Kusile is approaching. In 2019 it will all be behind us. And on all these projects there is a commercial close-out that must be reached at the end of the job. There is an element of risk. We need to replace the order book on Medupi and Kusile. Hopefully Thabametsi and Khanyisa will not take as long to move into the implementation phase. Hopefully that will bring opportunity.

Then the Middle East. We need to finish off the final four projects. And until we have exited that market we cannot say that there is no risk remaining. But I can assure you all the known risks have been accounted for in the past financial year. Operational excellence, we are focussing on that. We had one loss-making contract other than the Middle East in the past financial year. We cannot afford to have any loss-making projects. So that is a risk for us. We are realistic about it. We can't realistically expect that we will never have a loss-making project. You end up with a loss-making project many times for reasons beyond your control. So those will be there, but we really have to manage it well and avoid bringing new risks into the group by being irresponsible in the way in which we procure opportunities.

Growth acquisitions are important to us. We will not be able to grow relying only on organic growth or inorganic growth. Then key presentation takeaways. Murray & Roberts is different to what it was in the past. Beginning of 2018 a significantly reshaped organisation. Trading conditions in the mining business are really picking up, getting a lot better. Challenges remain in oil & gas. Substantial pipeline. The timing of the pipeline remains uncertain. We have got confidence that 2018 will be the start of a new growth period for the group. Our balance sheet is strong which enables us to do the acquisition in BCC, to have a dividend of 45 cents, to maintain that, to do the share buyback of R250 million, to pursue the acquisition in Oil & Gas in the US. Engineered excellence is not negotiable. And then finally the Middle East will remain a risk until we exit that market. So ladies and gentlemen, that brings me to the endo of the presentation. You are welcome to ask questions and I will ask Ed to moderate that. After the session the platform CEOs will be here. If you have specific questions about Oil & Gas, Underground Mining or Power & Water please feel free to engage and ask questions.

Ed Jardim
Henry and Daniël, thank you very much. We're going to start with questions in the room. We do have microphones available. If I can ask you to please wait until you see the microphone.

Henry Laas
There is a question in front there.

Female speaker
My question is about the regulations around gas extraction especially in other countries. Has that been a bit of a hindrance on the investment there?

Henry Laas
I think it has got more to do with the demand cycle at this stage and with the pricing. I think it is part of the federal regulations. In countries with established industries I don't think that's a hindrance at all. Our biggest hindrance in the US in CH-IV is actually specialising and getting all these federal approvals in place. And we're doing pretty well in doing so. I think the issue really comes in there in Mozambique and South Africa. But in the established sources of production it is not an issue. Any further questions?

Murray Connellan
Hi, Murray Connellan from HSBC. On the Kalagadi Manganese project how long do you think it is going to take you to ramp up to full production there?

Henry Laas
Mike, do you want to answer that question?

Mike
Its approximately a three month process to ramp up.

Henry Laas
About three months. We should be in production in January.

Henry Laas
Okay. So peak production we will achieve from commencement. Thank you. Other questions?

Ed Jardim
There are no questions on the webcast or the call either.

Henry

Well thank you very much. I think we've got something to eat in the room next door. Please feel free to engage our platform executives, our platform CEOs. Thank you very much for your attendance. We really do appreciate your attendance. Thank you.

END OF TRANSCRIPT