Conference call transcript

30 August 2018

ANNUAL RESULTS PRESENTATION TO INVESTORS AND MEDIA

Ed Jardim
Good Afternoon and welcome to the Murray & Roberts annual results for the 12 months ended of 30th June 2018. And welcome to all our stakeholders on the call as well as on the webcast. Just before we start a quick note on safety. In the unlikely event of an emergency two evacuation exits off of this floor. The first one is out this door to my left, left again towards where the bathrooms. There's an emergency evacuation door there. Break the glass. The door will release and make your way down to the ground floor, out and around the building towards the public parking space across from the building. That's the emergency assembly point.

Your second evacuation option off this floor is out these doors to my left again towards the lift lobby. There are a set of stairs on either side of the lifts. Please make your way down those stairs to the ground floor and out the main entrance where you came in this morning. Emergency assembly point across the road in the public parking space. The bathroom is out this door to my left. Its unisex bathrooms. And then I think with that, I'd like to welcome Arthur from the Investment Analyst Society to do an intro for us. Arthur, thank you.

Arthur
Well good morning. Thank you very much for coming today. It's my pleasure over many years to introduce Murray & Roberts and to thank them on behalf of the Investment Analyst Society board and of course, our members as well for coming and talking to us and being so open about what's happening at the company and giving us the information that we need to analyse the company correctly. This is a very interesting presentation because it's going to be the first full financial year that we've seen the restructuring of Murray & Roberts coming through into the numbers over there. And of course, it's also very interesting times were between the rattling in the background. I'm sure Henry will tell us much about that and he is able to. Thank you so much. Over to you Henry.

Henry Laas
Thank you Arthur and good afternoon. It's this time of the year where we talk to our stakeholders and we started off the morning by presenting this exact presentation to our employees who are a very, very important stakeholder within the organisation. It is our people that put us in the position to report and to share respectable set of results with all our other stakeholders. I can assure you within the Murray & Roberts group that's probably one of our biggest assets are the people that we have in this organisation. We have fantastic talent throughout the group in all the jurisdictions where we operate and it's really a bunch of people that I've personally very, very proud of. I would like to apologise on behalf of Professor Suresh Kana. Unfortunately, he's not able to attend today but I would like to introduce two Non-Executive Directors who are in attendance. Firstly, Ntombi Langa-Royds. Ntombi, if you can just stand up quickly please. Welcome Ntombi and then Diane Radley. Diane is Chair of the Audit Committee and also a member of the Independent Board. The independent Board was constituted in view of the ATON process. So welcome and very nice to have you with us.

In 2014 the board took a decision to approve a strategy for Murray & Roberts that we refer to as The New Strategic Future. By design, the group has gone through significant change from being previously a South African civil construction and building contractor to a multi-national engineering and construction group. Having said that, I've used construction twice. The word construction. And we need to differentiate between the construction sector and construction activity. What Murray & Roberts has done, we have exited the construction sector which is defined for civil construction and building work. However, we still do undertake construction activity. So whether we're building a mine or whether we're building a power station or whether we're building an LNG facility, that activity is a construction activity. But we have exited the construction sector. We believe that the path that we have embarked on is starting to pay dividends for Murray & Roberts as a group and maybe the earliest signs of that would be if you were to compare the Murray & Roberts financial position to that of its legacy peer group.

There is quite a contrast and we believe it is by design that we have achieved this position where we are today and we've got confidence in the way forward. Three operating platforms or business platforms and they are named after the core markets that we are pursuing. Oil & Gas, Underground Mining and Power & Water. Each of these business platforms are managed by a competent executive team under the leadership of a platform CEO. The platform CEO for Oil & Gas is Peter Bennett. Peter if you can stand up please, six foot ten. So Peter operates out of Perth. Underground Mining Mike da Costa. Mike joined us recently. He joined us on the 1st of August. Took over from Dr Orrie Fenn who retired. So welcome Mike. Power & Water is Steve Harrison. There's Steve Harrison, thank you very much Steve. Another important point I would like to stress at this moment. At the bottom of that slide you will see platforms are named after primary market sectors but also undertake work in selective complementary markets. I think it's very important to understand that. The reason we are pursuing work in complementary markets is mitigation against the risk of the cyclicality that we have in the commodity space. In Power & Water and also in Oil & Gas it is very important to have that blend of complimentary markets within your portfolio of project opportunities.

How do we explain this new strategic future to the market and when we talk about it, how do we explain it to the people within Murray & Roberts? And I think it's very easy to explain. It's a few concepts that you need to understand and if I start from the top, be a multi-national specialist company. So we're not a general contractor. We're a specialist company, engineering and construction group, focused on natural resources. As I've said, Oil & Gas, metals and minerals, Power & Water, these are the core market segments but we also undertake work in complementary markets. To provide services across the project life cycle. That is also very important. So we're not only building projects, we get involved right at the early stage, at the development phases. We're also considering taking up an investment position and equity position in fund opportunities because if that would unlock further work for the group as a whole. We get involved into the engineering phases, we get involved into the construction phases; building the infrastructure, into the operations and eventually the decommissioning. So it is a project life cycle service offering.

The concept of engineered excellence is also something that is not negotiable within the group. If you want to succeed in this business, you need to excel in what you're doing. So engineered excellence for us sets a standard that we would like to achieve in everything we do within the group. The way in which we engage with the market like today. The way we engage with our clients. The way we engage with our people, our employees. The standard that we are setting for ourselves is a standard of excellence. We don't achieve that by chance. We engineer that outcome and that is the concept of engineered excellence. A standard of excellence and we put a plan in place to achieve that engineered excellence. Growth through organic growth as well as acquisitive growth. That is important to us. And then ultimately all of this culminates in enhancing shareholder value. So in essence that is the new strategic future plan.

This plan has been unfolding over a number of years and I think the first point there is in March last year we moved our listing from the heavy construction sub-sector on the JSE to the diversified industrial sector. I think that brought about the first significant shift in the eyes of the investment community. Secondly, I think the growth plan and the strategy of the group was well communicated. It's well understood within the organisation and we believe the message is starting to take traction with other stakeholder groups. We have a robust balance sheet. You need to have, in this business, a robust balance sheet. If you don't have a robust balance sheet, you cannot do anything. You're going to struggle for survival from day to day to day. You need to have a robust balance sheet. We understand the natural resources sectors are cyclical. You've got periods of growth and you've got periods of decline and you need to have the financial strength to navigate through those cycles. And we're starting to see early signs of an improved order book.

The group's order book has gone up from R27 billion to R30 billion. We believe it's a quality order book. The diversification that we have in the order book, we believe brings strength in that order book and all in all, we are optimistic that this strategy that is busy unfolding is certainly putting Murray & Roberts on the right path to achieve that ultimate objective which is to enhance shareholder value. I want to share a few slides with you to give you a feel of the type of work that we do within the organisation. That is just to show the strong contrast between work that Murray & Roberts performed historically and the work that we are doing today.

Now the photograph on the top left is an interesting one. None of you would know what you're looking at. I said this morning when we spoke to the employees, I said to them that's a PC board for an HP laptop. It is not that; it is not that. Some of you have seen this photograph before. That's a phot from a drone. This is at sea, off-shore. This is the Ichthys centre processing facility where Peter and his team have been undertaking work. I don't know, close to two years now, I think. Going to two years. And there you see that's the helipad. But this is at sea. The Ichthys project and it's been a very important source of income for the Oil & Gas platform in the past financial year. To the right is an example of complementary markets. Work that was undertaken at the Mundaring Weir project. Very successfully completed and I think it was completed with zero harm. The first project… The second project in that platform. Examples of the types of work that we do in Oil & Gas.

Underground Mining. To my left. That is not the foyer of a five start hotel, that's underground excavation. That's the Freeport Mine in Indonesia and the work that's being conducted there is the installation of sheave decks. Work that we do within our mining platform. That's specifically by RUC. To the right hand of that slide, you'll see a photograph. That's been taken from the Bentley Park Training Facility. You will hear later on, it's very, very important for our mining business specifically a South African component to establish itself really as a leader in mechanised mining in Africa. And if you want to do that, you must then tell your people and you must enable your people to be able to perform well in a mechanised environment. So that is a simulator. It's a simulator of a drill rig and there's a trainee operator undergoing some training at the training facility at Bentley Park.

The Power & Water business to the left of the slide is a very nice photograph of that waste water treatment facility. For those of you who really don't understand what waste water is, it's sewage water. What you are looking at there is a waste water treatment facility. It is new technology. It's environmentally friendly. This is the type of work that we want to do in the Power & Water business to differentiate ourselves from the more traditional type of waste water treatment facilities. That photograph is of a demonstration plant that's been erected at Verulam, Kwa-Zulu Natal. It is in operation. Steve, I don't know how many engineers and consultants and potential clients have visited there over the past three to four months but I would… You give me a number. Thank you Steve, so significant interest in that. We haven't secured any opportunities yet. Some tenders are starting to work its way to the system but no awards yet. On the right hand side is a photograph of the Sasol environment.

And the Oil & Gas for Steve's platform, for the Power & Water business, is a complementary market. Complementary market and whereas it is the main business for Peter's business, in Steve's business it is a complementary market. I think, just to emphasis again, the importance to have your core market sectors that you do your business in but also to be able to provide services into complementary markets as I said earlier on, to mitigate against this risk of business cycles.

This morning I said to the employees when we presented, I've decided to put the green arrows on this slide because they are all green and next year when we present, should there be red arrow, I may decide not to show any arrows. But we are very pleased with the result of the past financial year. Our revenue is up although marginally. Attributable profit is up to R267 million and our diluted continuing HEPS 112 cents a share. All three business platforms performed to our expectations. They did well. They came in at budget and I think that is also important that you get to the point within your business that you understand it well enough to put the budget forward and actually achieve the budget. And not overachieve it or under achieve it but that you, what you are planning, that you are actually achieving what you are planning. I'm making a comment there that there is a loss in discontinued operations. That's not expected to be repeated in the next financial year.

Danny will show you the results a little bit later on, it's about R260 million or R270 million and we won't see that in the next financial year. So we do expect attributable profit to be boosted by the fact that we would not see this repeat of a loss in discontinued operations. The order book as I've mentioned already is R30 billion. And that excludes the R3.6 billion that was announced this morning. We've put out a SENS this morning. Two projects in the Underground Mining space that have been secured after these results had been finalised. So there's an additional R3.6 billion in the order book. Cash, cash net of debt of R2 billion. It's up on where we were last year and that is after we've made the investment in the Bombela Concession Company in the order of about R400 million and after we've paid out the dividend that was declared for the previous financial year and we closed marginally up on where we were last year. That's cash net of debt. Cash in the business is about R2.5 billion. Net of debt, R2 billion.

And then a dividend of 50 cents a share. It's up from the 45 cents that was declared in the prior year and the board has decided to up the dividend to 50 cents a share. I don't want to spend too much time on this slide other than to say the board has got confidence in the growth plans and the value options that are available to Murray & Roberts as a group. It starts off with the strategy. The strategy is clearly defined. I've already spoken to you about that. But secondly, we see a recovery in the natural resources markets. And if you're talking about this last year and it is now sort of demonstrated through the significant growth that we've experienced in Underground Mining Platform order book. And this growth is continuing to come through. Other than the R3.6 billion that we've announced this morning that was included in the order book, there a number of other substantial opportunities that are under adjudication. That we hope will come through in first six months of this new financial year. Having said that, in Oil & Gas, the Oil & Gas market is still operating in a sort of difficult environment.

There are not many opportunities in the Oil & Gas space for Peter's business. I'm talking about new opportunities. But we know that the oil price has been above $70 a barrel for how long now. And one of our Non-Executive Directors, Keith Spence – he's from Australia – is close to a number of energy companies and all those energy companies are working on new investments that are currently in the engineering phases. And we've got no doubt that Peter's platform that's currently operating of low base, that we will see growth coming through in the next two, three years Peter. So there is this recovery in the natural resources market and as I said earlier on, this is the core market that we are focusing on. The robust balance sheet, I think is important. It gives us confidence to pursue opportunities. It gives us confidence that we have enough liquidity in the business to meet our working capital requirement needs as we grow.

And finally we've got confidence in our strategy and the growth prospects. Dividend of 50 cents a share equates to R220 million. Now when you calculate the dividend cover, the policy which we have communicated previously to stakeholders is that we try to work on a cover of three to four times HEPS. When you calculate the 50 cents, the cover there, it's about 2.4. The board is considering this dividend policy and during the course of this current financial year, will decide whether it's appropriate to amend that policy and to communicate something new to the market. Something else which is important to mention that we've been talking about the importance of pursuing an acquisition in the USA for quite some time now. We are still working on it. And Peter Bennett, he arrived this morning from Tokyo where he engaged with the owners of the business that we are pursuing at this stage. And hopefully we can conclude a transaction in this current financial year. But you know, you pursue ten targets and maybe you end up with one. It's not the each and every target that you pursue that you eventually manage to close a deal on. And then the final point is the confidence in our growth prospects. We believe was also demonstrated by the decision of the board to make that additional investment of about R400 million in the Bombela Concession company and that has been reported on in previous occasions and we believe it's been a very, very good investment and will continue to be until the end concession period.

So there's two parts of a business or two different corporate transactions that the business was engaged in in this current financial year. And it was quite extensively covered in the media but I think it's important for us at this presentation just to make a comment on the status of both these corporate actions. The first is the potential combination of Murray & Roberts and Aveng. Now there's been lots of talk in the media and people positioned this as a frustrating action in the light of the ATON offer. But it is certainly not the case. We've identified this opportunity, years back. Me and the previous CEO of Aveng, Kobus Verster, we've had numerous meetings exploring the possibility of a potential combination of these businesses. Then at the time, Kobus felt that there were other things within the Aveng group that he had to address first and that would have resulted in a stronger share price and at that stage they would have been ready to talk to us about a transaction. But they didn't turn out like that.

Our board in the final quarter of calendar year 2017, October/November last year, approved for us to engage with Aveng and to explore the Aveng transaction. And early in this financial year, sorry this calendar year, calendar year '18, we've had engagement with some of the shareholders of the Aveng group and also with the

Aveng Board and then in May, we announced the transaction. For us, it was all about combining McConnell Dowell which is the Australian business in Aveng. Combining that with Peter's platform, the Oil & Gas platform. Combining Moolman's which is the opencast mining business with Mike's Underground Mining business, combining it with that platform and then to sell of all the other assets and that would have left Murray & Roberts as a significant company in the engineering and construction market. So that was our plan all along.

Now, as you would know, the Takeover Special Committee overturned the earlier approval that was granted by the Takeover Regulation Panel for Murray & Roberts to pursue this transaction. And the Takeover Special Committee ruled that Murray & Roberts may not, for as long as the ATON offer is in play, may not pursue the Aveng transaction. And as part of the Aveng right offer, their recent rights offer, ATON acquired the 25.42% stake in Aveng which is a position of negative control and any combination between Murray & Roberts and Aveng would have required a 75% shareholder vote at the Aveng level and it would just not have passed, given the position that ATON had acquired their stake in Aveng. And because of these developments, the ruling of the TSC and ATON's position in Aveng, we've decided to withdraw from the transaction and that was announced to the market on the 8th of August. I still believe that this is a value enhancing opportunity for all Murray & Robert's stakeholders but also for all the Aveng stakeholders. So we have not totally given up on this. There are many moving parts currently that are moving in all different directions and we will have to see how it all crystallises over time and whether they may be new opportunities as far as the Aveng Group is concerned. But for now, it's… What I would like to do now is handover to Diane Radley. As I said earlier on, Diane is a member of the Independent Board that was constituted to deal with the ATON process. And as a member of the Independent Board I would like Diane to talk to you about the ATON offer. Thank you Diane.

Diane Radley

Thank you Henry and good afternoon. I think it just comes as no surprise that there was an offer on the table to Murray & Roberts' shareholders, if we go back approximately five months ago before the voluntary offer was made; Murray & Roberts were trading at a significant discount to save value. In fact, not only had the Murray & Roberts share underperformed, to diversify the industrial sector, it also disappointingly underperformed the Materials and Construction sector. So, currently, we have a mandatory offer on the table of a R17 per share from ATON GmbH. It has long stop date of 31st of March 2019 which, if at that point, we do not have the necessarily regulatory approvals in place, the deal or the offer will terminate. As a Murray & Roberts shareholder, you currently have two options. One, if you have already offered your shares into the offer process, you have until the 5th of September to withdraw those shares and reconsider your position. And having said that, once the deal, or once the offer becomes unconditional, all shareholders will still have ten days, post the unconditionally to decide whether to accept that offer or not.

So, what will practically happen, is ATON will put out a SENS announcement stating that the offer is unconditional, and shareholders will then have ten days in which to decide to accept the offer or not. At the moment, the offer is subject to regulatory approval across the multiple jurisdictions in which Murray & Roberts operate, the regulatory process is currently in process. In South Africa, the first potential referral date is in fact tomorrow, but that is subject to extensions of between 15 and 30 days in each occurrence. So, there was a little bit of uncertainty around when those regulatory approvals will come through. The Independent Board continues to engage with all minority shareholders. On the share retrospect currently, ATON is sitting just below the 44% ownership level, and the next biggest shareholder is the PIC who is currently sitting at just over 21%. The Independent Board, when the first offer came out, voluntary offer, some approximately five months ago, we in fact advised shareholders to reject the offer. And we publicly said that we've that the fair value of a Murray & Roberts share was between R20 and R22.

When the mandatory offer came out at R17, we reassessed our position in terms of that evaluation, and we again reaffirmed, that stakeholders and shareholders should reject the offer, and that we felt the fair value was between R20 and R22. The Independent Board also feels that in order to maximise value for our shareholders, it's critically important that we have a constructive engagement process with ATON and that we continue to pursue that engagement. So, I'm just going to give you a little bit more colour on how did we get to that R20 to R22 a share. We did an indicative sum of past evaluations, first of all, we took the business platforms and we did a DCS on all three platforms, and the initial evaluations, Power & Water was also done on a DCS Basis. And in the second revised evaluation, we changed our strategy and we applied in less asset valued calculation. And that was really because Medupi and Kusile were coming to a conclusion on the 2019 financial year, and that platform would be significantly smaller going forward. And we were a little uncertain as to the shape of that platform, and therefore, we revised our evaluation downwards slightly to a NAV basis.

On the other two platforms, Underground Mining, before improving market conditions and an upturn in the commodities cycle, and the forecast based on that view. And very pleasingly, and you would have seen the numbers of tenders that have been awarded to Underground Mining, we are seeing a lot of our assumptions starting to come through in actual practical tender granting. In Oil & Gas, we also recognise that the Oil & Gas market is relatively soft at the moment. We also have the view that it will remain soft in the short to medium term, but that Clough had a unique opportunity to re-enter complimentary markets, where they were previously very strong. And again, pleasingly, we are seeing some strong traction beginning to emerge in that space. Outside of the DCF, on the business platforms which contributed R16.20 to R18.20 of our market valuation, we also took a view on cash. And at the time we based our value of cash, what we call free cash, on what the forecasts are currently showing in that point in time. And we included R500 million in our evaluation. Now, as it transpires, total cash at the end of June is R2.5 billion, so one could argue that potentially our view on cash is slightly on the conservative side.

If we look at claims, our uncertified revenue at the end of June is R1.3 billion, and here again, because of the uncertainty around, and in fact, the uncertified revenue is sometimes a binary outcome, with some of the uncertainty around the Middle East, we decided to only account for R500 million of the uncertified revenue that is currently carried on the balance sheet. Now, having said that, to the yearend audit process, an independent expert took a sample of uncertified claims, and reviewed those for recoverability and they in terms of that process, they looked at not only the way this uncertified claim number was established, but also at the potential recoverability of that number. And they came out with a view that the process was very solid and robust. So, there again, you could argue that potentially we were a little bit conservative on the recoverability of the uncertified revenue balance.

And then, one of my favourite investments, the Bombela Concession investment, which I'm always eternally grateful for every time I catch the Gautrain from the airport. But there we took the dividend stream, the anticipated dividend stream coming out of Bombela, and we discounted that 18.5% to come up with the value of R2.95. And then the Independent Board sat, we carefully analysed, we probed, and we applied judgement to the overall valuation, and we processed the market uncertainty adjustment of R1.35 which got us to our R20 to R22 per share. What is also encouraging, and I think also is very important to note, is the first year of evaluation was not based on 2019, it was based on 2018. And encouragingly, the forecast and the actuals, pretty much ended up like for like. So, now I'm going to hand over to Daniel, who is going to take you through the 2018 result.

Henry Laas
Before Daniel talks to you about the results, I would like to take a moment to talk to you about the safety performance in the past financial year. Safety is one of those things which are very, very important in the Murray & Roberts group. If you are in the corporate office or whether you're out at the project site, there is a clear understanding that we are working towards zero harm. We believe that it is possible, in many of our projects, I've mentioned earlier on, the Mundaring Weir project in Australia as an example, many of our projects, we complete projects without any incidents, without any injury. And a couple of years ago, nobody would believe you, if you were to tell them that you have completed a project without any injuries. But that is happening more and more in Murray & Roberts.

Having said that, we have the unfortunate event of fatal incident in Indonesia with one of our colleagues, Henry Munardi, passed away in an incident in the Freeport market. So, very sad and very tragic, and something that you never want to have in your organisation. Inevitably, loss time injury frequency rate, and that is expressed per million-man hours worked, it looks like there has been a strong deterioration or reversal from 0.52, which was the rate recorded for the 2017 financial year, compared to 0.86. There is a combination of factors which contributed to that, I think, probably the most significant contributor to that was the exclusion of the Middle East statistics from the group statistics. In the Middle East we always clocked millions of hours and there were never any incidents recorded. And not to have those hours in your statistics, all of a sudden, contributes to a deterioration in your rate.

So, what I would like to show you, at the bottom of that slide, in Oil & Gas, we had a loss time of injury frequency rate of 0.14, which is an improvement on the prior year. And I can tell you now, you have to look far and hard to find another organisation in this space with a 0.14 loss time injury frequency rate. Underground Mining, 1.89, yes, it is a deterioration on the FY17 result, but again, you know what the results are that are being reported by mining companies, not only in South Africa, but in other parts of the world. And just draw a comparison between the 1.89 and whatever those other companies are reporting, and you will see there is an industry leading performance. Just be careful, when you make comparisons, many companies express their rate per 200,000 hours worked. This is per million hours worked and if you have a company that is rated 200,000 hours, you must be multiplied by five for comparison purposes. The Power & Water platform is 0.12. That is absolutely a fantastic performance. When you visit Medupi and Kusile, you see the heights that people are exposed to, the handling of material the people are exposed to. Sometimes, you ask yourself the question, how is it possible? But it is possible, and you can see it in the results, 0.12. So, I really want to, again, say to our platform executives, thank you so much, for your effort and for your hard work in making sure that we are achieving these industry leading performances. I'm very proud of you, fantastic effort. I would like to hand over to Daniel, and Daniel will take you through the financials.

Daniel Grobler
Thank you, Henry. So, when we go to this part of the presentation this morning half of the audience fell asleep, the staff members, so I'm glad to see most of you are still awake as we talk about financial. The second item is Henry took the liberty to present a slide with green arrows. He forced me to present this slide, something I'll have to resolve afterwards. But a quick comparison between FY2017 and 2018. Underground Mining, there is good, solid performance, the order books are 26%, and that's before the announcement we put out this morning. Oil & Gas, we debated if it's yellow and if it's green. We put it on green, and then came the EBIT performance of the year, but their Order book went up, and we will get to the Order book in a bit more detail later in the slide. Power & Water came down both from a performance point of view as well as an EBIT point of view. Investment in Bombela Concession companies went up, it's positive for us.

In the Middle East last year, to explain the loss of R568 million for the year, and I said with some conviction that the mark of project losses has been taken to book. This year we reported a loss of R34 million in the current year. So, like I say, with a lot of conviction, as we stand here today, the losses going forward on these projects have been provided for, the bulk of them have been completed, and I don't foresee any significant losses going forward in the Middle East. Looking at Interest, Interest is very much in line with prior, from monetary point of view. Tax is down, compared to the prior year, but the effective tax rate remains at 36%. Continuing operations as a whole is up as a result of the reduced losses in the Middle East, and from a discontinued point of view, we had similar results and I get into it in a bit more detail from that on the income statement.

So, on the income statement, I'm not going to talk to all amounts. The revenue was very consistent compared to prior, from an EBIT point of view, if we look at line item, continuing EBIT operations, excluding the Middle East. So, the prior number of 1055 included the once off profit in the Bombela Civils joint venture company. So, that company settled the claims with the Gautrain province, and that excess provisions of R166 million, they release that, not expected to occur in the prior, in the current year. So, if you compare prior year with current year, very similar performance. We talked about the Middle East; we talked about Interest, that net on net almost the same.

Taxation in the prior year, when Bombela Civils joint venture which was the company that built the Gautrain, we had significant shareholders' losses into that entity to fund those losses. When we settled the claim, we were able to rope down those losses, and that gave us a capital tax benefit of R144 million in the prior year. So again, if you compare large for large, we're not too far off compared to prior year. Discontinued operations in the current year is R278 million, that mainly constitutes two items. One is the losses we made in Genrec. Genrec, we expected to sell in the early parts of this financial sell, we only effectively sold it in May this year. It made operation losses of about R128 million, and those losses again, is not expected to repeat in the prior year. When we sold the SA infrastructure in Buildings business, we retained certain assets and certain liabilities. Those liabilities and assets worsened in the current year as a result, mainly as a result of one dispute that went against us. That was about R100 million swing. So, effectively, the discontinued operation losses are not expected to occur in the new financial year. So, what that will do, that will increase your attributable profit in the new financial year.

We move on to the balance sheet, property, plant and equipment. 85% of that is sitting in Underground Mining business. Other non-current assets include Diane's favourite investment in Bombela Concession Company. What we have done in the current year, is we have increased our stake from 33% to 17%. The amount that we paid for that was R358 million, and that's the biggest movement in the amount of 266 that I've circled on the screen. Cash, very strong cash performance, R2.5 billion. Assets classified as held for sale in the prior included Genrec, in the current year it includes a few properties in plus, and one investment property in Botswana. And then, if you look at our shareholder equity, strong shareholders' equity, think this morning, the share price was trading at R7.2 billion, so I think, it's a very strong indication in terms of market performance versus market expectation.

We talked about the net cash of R2 billion versus R1.8 billion in the prior year. But the pleasing fact for me, is both pleasing and challenging is the gross gearing of the company. So, total cash net of any debt, we've got 7% growth during in the company. Now, our investors' aspiration is to get that up to about 20% and 25%. So, what that leaves us with is the ability to both facilitate organic growth as well as the acquisitive growth. So, I want to get back to cash balance, and Diane briefly touched on it. It's R2.5 billion. I often get the question, of that R2.5 billion, how much of that is unrestricted? The unrestricted portion of the R2.5 billion is R1.8 billion. So, if you want to do an evaluation of the company, you can either take the R500 million, a R200 million, the R300 million or anything up to R1.8 billion. When we tender our projects, we tender it on a cash neutral basis, so what that means is you don't need a hell of a lot of working capital, when you actually tender a project and grow a business. So, it's up to the analyst to take their own view in terms of cash and what's unrestricted available cash within the business.

When we get to the segmental reporting, there are two elements to it. There is both a financial element, as well as a strategy and market element to it. I'm going to co-present this with Henry. So we are going to start off with the Oil & Gas platform, which is the easiest platform. So, on a dollar for dollar basis, in the prior year, made $20 million. In the current year they made $21.5 million. So it's actually a slight increase compared to prior year but as a result of the exchange rate, the total profit came down from 217 to 209. So, there are various divisions within your Oil & Gas platform. We've got Engineering, very pleasing results of Engineering and they did well. Construction was traditionally the power house within the Clough industry. We can see that revenue went up compared to your prior year. The margin that they go up on these projects was barely sufficient to cover tender costs as well as overhead costs. But the pleasing element is, you will see, the order book went up from a R1 billion to R3.5 billion. Those orders were achieved the complimentary market that Clough is currently looking into. What's not on here is that Clough at the moment is very actively busy tendering on projects. They've got two large projects combining very close to $6.8 billion, and on both of those projects, they have been shortlisted as one of two. So, if we just secure one of those projects, it's a significant facelift to Clough as well as to business model as to where it's going. And it sets very pleasing position to be in.

Global Mining is a division within Clough. Clough has done quite a lot to restructure that division in the current year and going forward. They have had no revenue for the year, but they are currently, actively tendering opportunities in both Asia and in the Americas and in Mozambique. So, next year we will have a smaller loss, but hopefully revenue allowing accompanying the Clough Marine business. Commissioning and maintenance, the prior year has got a lower revenue figure, but a higher profit figure. The current year has got a higher profit figure, but a lower operating profit figure. The project that they executed in the prior year was a very profitable contract, and it generated significant revenues, significant profits. That project came to an end. We secured a next project which was the Ichthys project from a company called Inpex. It was secured at a lower value, even though it was profitable, even less profitable compared to the one we had in the prior year. Then, we've got corporate and other overhead costs, but again, the pleasing element of the Clough is the fact that they've increased their order book from R5.1 billion to R6.4 billion. And we've talked about those big projects that are out there on the tender. My personal view is Clough is going to be on the tough operating environment for the next six to twelve months, after that is done, they start securing these projects. I think the platform has got a very steady base to start growing earnings going into the future.

Henry Laas
Thank you Daniel. Just to clarify one point that Daniel mentioned is that there were two projects where Clough has been shortlisted one of two. Each of them is now A$3.5 billion. These projects, if we are successful with them, we will be pursued in joint venture and Clough has got a third share in that joint venture. What we are going to do now is look at the Clough strategy, or the Oil & Gas strategy in a little bit more detail. We haven't done so, in previous presentations, previously we only spoke about the group strategy, the higher-level plan for the organisation. What we decided to do this time around is just to give you a little of colour around each of the platforms and what they are actually trying to achieve. For Oil & Gas, very important that they establish themselves in the complimentary markets and Clough is moving in their direction, wanting to get a strong EPC business in place to address the opportunity in Australian infrastructure and mining market. This is not a business that we would like to roll out on a global basis. It is purely targeted at the opportunity that we see within Australia now.

The second element, or strategic goal, is to maintain the current businesses that we have. We can very easily put ourselves on a new path and forget to maintain the businesses that have always been very good for the company. So, it's important for Clough, although there are complimentary markets for projects in complimentary markets, to maintain the strong businesses that they have within the platform. And then the international growth is important. We do have business in the US; we do have businesses in the UK and other parts of the world. It is time now that we start to grow those businesses. The acquisition that we are pursuing is an acquisition in the USA. The idea is to get an EPC capability established in that market, because we believe that is, when you talk LNG, where they will be significant opportunity in the medium to long term. So, that is just in a nutshell what Clough is trying to do, is establishing new businesses in complimentary markets, maintaining the strong businesses that they already have and then expanding that international contribution into the platform result.

Now, the next two slides, what we attempt to do here is to give you a feel of the opportunity. In Australia, from the period 2017 to 2027, people say that the spend will be greater than what was spent in the LNG Boom over the past decade. And I'm only talking about Metals and Minerals, Infrastructure and then you will see the Oil & Gas spend is going to be very low. Now, the way in which this works, the yellow is Metals and Minerals, Infrastructure, Oil & Gas sectors, just look at the scale of the investment. With five of the investment in Queensland and New South Wales. We've established an office in Sydney. I don't know how long ago, Peter? About 12 months ago in anticipation of these opportunities. Most of these spend will be incurred in transport infrastructure and also in water opportunities. So, that's where we are focussing our efforts in the complimentary markets in Australia. But that doesn't mean that there is no future for LNG.

This slide shows you, the black portion here is current LNG supply operation. Let's call it installed capacity globally of LNG production. What you see in the yellow part, that is new capacity which is currently under construction and is being commissioned, and as you will see, it started here in 2016, 2017 and this includes the projects that we are currently commissioning, like the Wheatstone project, like the Ichthys project, those found its way into this additional yellow part. But then there is a forecast of demand, so this portion here deals with supply, but this is actually the demand curve. So, the demand could easily be, if you are a little bit conservative, follow this line, if you are a little bit more bullish about demand, you could follow that line. But what you see, there is a gap starting to open up. There is a gap starting to open up between supply and demand. We talked about 2020/2021. We don't think that Australia and Qatar are necessarily going to contribute significantly to this additional supply, to meet a demand. We think it will come more out of USA and out of Russia. And for that reason, it's important for us to get ourselves established in the USA period to pursue this opportunity. But it is not as if these opportunities are on our doorstep. I mentioned earlier on the feedback that we received from Keith Spence that these energy companies are currently in the process of doing the engineering work and feasibility and evaluation studies for future investment. Back to you Daniel.

Daniel Grobler
When I presented this slide in the morning I was in a bit of a predicament. The managing director of the African operations for 2017. If you compare the operating profit for 2017 versus 2018 there's a significant difference. The only plausible excuse I could come up with is I left him, a really solid base with a really solid order book and he just capitalised on it. The 6% margin is the highest it has been for long time for the company and they've done

quite well to do that. It came at the back of the closedown of the Booysendal contract, a very large contract for them. They busy with a process to actually secure the earnings that they lost in the Booysendal contract. They've already started on the Kalahari contract. We've announced this morning that they've secured another contract and they're very close to two other contracts in terms of securing them. We're quite confident that they're going to plug the gap in that platform.

If you look at Australia, Australia has had a very difficult year. A few things happening in Australia, the first thing that they've lost a contract with… Did we actually name the company? Saracen. Saracen in the prior was a very lucrative company. It contributed a lot in terms of profit. In the new year they secured one of their biggest contracts ever, a contract called Mount Dacian [?]. That contract had two elements to it. It had. It had a development element to it, and that was supposed to go on to a contract. We've experienced some difficulty in going from development to contracting. What else they did was they took the staff members from Saracen and plugged them on Mount Dacian [?]. That had a significant impact on the margin for the current year. With all of June months we're seeing the benefit of… The margins started getting back to what it's supposed to be. What we're seeing order book, is the order book is now sitting at R4.8 billion versus R3.1 billion. It's the highest order book that Australia has had.

Traditionally Australia operates between an operating margin of say 8% and 15%. Logic would dictate with a higher order book you're going to see higher revenue in the new financial year. If you apply that consistent operating margin to that you would expect higher earnings for the Australian business. The same applies for the Americas. The Americas has had very consistent year compared to prior year, operating at 4% to 5% in operating margin. If you go back ten years that's very low for that business. Traditionally they're operating between 8% and 10%. What you'll see is their order book and almost doubled and that was before the announcement that we made this morning. The logical assumption would be to increase revenue for the new year, you have to increase earnings. As a whole, this platform, because of the increased Order book is expected to have higher earnings in the new financial year and going forward.

Henry Lass
Thanks Daniel. Let me just go back. That margin for this business of 6% they've been trying to cut… It's a very, very good margin. I think this is a commendable performance. What I want to emphasis, Daniel said that the Africa business achieved a 6% margin. That's the first time it was achieved in many, many years. You're absolutely right because the last time it was achieved was when I was the MD there and it is a very long time ago. Just a little bit about the underground mining platform and the strategies. We've got three separate businesses. The cementation business here in Africa, RUC in Australia and then cementation in US and in Canada.

What we have to do as far as the business in Africa is concerned you really need to get ourselves more positioned for opportunities in Sub-Sahara Africa. As far as South Africa were only undertaking work in Zambia right now. There are other opportunities in Africa and we need to get into that market, that's the main focus area. Mike was listening, he joined us on the first of March his absorbing all the information like a sponge. Mike, you need to get into Africa for that business. The second point is people talk about rapid access development or high speed development but it is all terms that have been used for very, very efficient mechanised mining alterations. What we try to achieve is to position this Africa business really as a first class mechanised mining operator in Africa because we have to complete with the likes of the Australians and the Americans. Those guys excel at rapid mine development. If we want to complete with them, we have to get our act together. That's why we included that earlier slide that I showed right in the beginning of the presentation that I showed right at the beginning of the presentation of the training facility at Bentley Park and the simulators that we have and the people that we train on these simulators.

As far as RUC is concerned that business has historically doing raise drilling business. That business needs to enhance its performance or maximise its opportunity in raise drilling but has also started to undertake mine development services like Saracen and not more than Daniel has been talking about. It's important that we grow that part of the business. Potentially it should be a much larger contributor to RUC earnings than what the raise drilling business is, so there are lots of opportunities there. Further in Asia they need to establish themselves in the bigger market and then also get further opportunities in block cave projects in Indonesia. I'm mentioning that specifically because at the bottom of that slide you'll see that the aspiration is to grow the contract mining element of his business to contribute at least 50% to platform revenue. You know why? Again, it's a very cyclical business. If you have a contract mining portfolio it carries you through the downturn of the cycle, that is important for us.

The Americans, we believe there's going to be strong growth in investment in the Canadian market. Although we're well established in Canada we don't believe that the market share is the position where it should be. So we need to grow our market share in Canada. We need to get to the point that we benefit more from the opportunities that that market is presenting. There are two other brands that you can see on the slide, Cementation AG and Merit. Cementation AG is a company that deals with logistics and handling of materials and processing. The small business that we actually established a couple of years ago wasn't an acquisition, it was a business that we established, Cementation Above Ground or Cementation AG there's a lot of opportunities. That business needs to grow and that's part of the strategy going forward. Merit is a consulting company; it's an acquisition that we did a couple of years ago. Still small but that has started to grow. In a nut shell that's where these separate businesses within the platform are targeting to grow the business.

A very important slide. Are there any members from Macquarie in the group? Not a single sole, okay. This is information that we get from Macquarie every year, research that they do and information that we get from them. The way to read the slide is you'll see vertical columns there, each of those columns represent various stages within the commodity cycle. The commodity cycle normally runs over a three to a six-year period. What you see in the red block, this red bock here, this is sort of where you find yourself in your down cycle. As far as the red block over there and over there you don't yourself sort of in the growth path of the cycle. What this shows you, these commodities in the yellow block these are the commodities that we are exposed to now in our order book. Those with the white background, we don't currently have that in the order book.

These black lines here, it's the forecast of where this commodity will find itself in the cycle over the next two-year period. As you can see, many of the commodities that we have in the order book these are actually starting to work itself out of the down cycle and only getting into the growth part of the cycle. It's early days for us, we don't expect that the recent success that we had was projects that are secured in the underground mining platform because that is now the end of it. We are finding ourselves in the early days of the growth cycle. So this should extend for at least another three to six years. That's if you believe that the experience of the past will repeat itself going forward. This slide here, the purpose of presenting it is we many a time get a question, aren't you over exposed to platinum? Aren't you over exposed to copper? And what you see there is each of those colours represents a different commodity and the legend is on the right-hand side of the slide. To the far left is what the commodity mix was in June 2017 and to the far right the column that you see is for the platform as a whole the June 2018 mix of commodities in the order book. So a very diverse commodity mix that we have in the order book, and I think it is part of the strength that we have in our order book the fact that the exposure cuts across many commodities. So back to you, Daniel. Power & Water.

Daniel Grobler
Thank you Henry. So of the four platforms that is typically the one more difficult to talk about as to where they are in the cycle. We all know that the Medupi and Kusile projects are coming to an end. There is a bit of a tail going into the new financial year. What we are showing there is power. And we've got to be very clear that the power division includes not only Medupi and Kusile power programme but other power projects that we've done across the group. In the current year it Duva project that we did in Botswana. In the prior year we had the WFGD. In the prior year on the WFGD project we lost R114 million. So what you will see is if you take the R243 million and you add the R114 million back you will see that the profit on a realistic like for like basis came down with the revenue that we've seen in the power programme. That is why we are sitting with a margin of 7% in the current year.

In the water division there are two elements to that. There is water treatment versus the Aquamarine business. The revenue we see there comes from the Aquamarine business. They generated a lot more profit but it still wasn't enough to offset the tender cost and overheads base in the rest of the water division. What that division needs, and Henry briefly touched on the Organica plant, is if we secure one big Organica plant with one municipality that could be up to R1 billion. So if you take a R1 billion project and you add your profit to that this division can significantly transform and become part of a meaningful platform.

If you look at oil & gas, traditionally the work we do for Sasol, again it includes a number of projects. In the current year we made a loss of R87 million. That loss includes the loss on the CGFE [?] project for Sasol where we recorded a R101 million loss. As with WFGD with CGFE we are following our commercial rights and legal processes to recover the money. So it's not money in the water, but that's the accounting position we had to adopt for these elements. We can see E&I, electrical and instrumentation, remains very profitable and they all contribute to cover the corporate and other overheads.

So in the current year we had an earnings base of R134 million. But the worrying element for me is that the order book dropped from R3.7 billion to R1.5 billion. As I say of the R1.5 billion the bulk of that is made up of the power programme. Steve and his team are flat out in terms of tenders. Some of them your success rate varies on. But there is a lead time until those projects actually come to execution and we get boots on the ground. So I think for the next six to 12 months that platform has got to live off the tail of the power programme as well as some of the shorter-term projects in Power & Water that we secure. Over to you, Henry.

Henry Laas
Thank you Daniel. In this business a couple of years ago we were forecasting that by the time that Medupi and Kusile come to an end the other power projects would have been approved already for construction and that those opportunities would actually take over from Medupi and Kusile. That has not happened. So there are no new coal-fired power stations currently under construction in South Africa other than Medupi and Kusile. They have all moved out. So what this business had to do is again think about how it is going to position itself. So what we are trying to achieve in the power sector is to provide a service to the broader sector and not specifically only focussing it on erection of power plants. So we are busy establishing a repairs and maintenance capability that could extend services into Eskom but also in Sasol. And we are also starting to tender on power transmission lines not only in South Africa but also in Sub-Saharan Africa. So it is still in the power sector, the broader sector. It's important for us to do that.

The Organica technology we've got a lot of confidence in. We need to make a breakthrough and we need to get not only a demonstration plant in operation but we need to get a proper Organica plant in operation before the technology will be accepted by consultants and advise clients on what type of technology to be utilised for their plants. In this water business chemical supply we would like to do a lot more of. It sounds insignificant but I can tell you it is not insignificant. There is significant opportunity in chemical supply. And through Aquamarine we are exploring that opportunity and we are already engaging the market in that regard. And then finally our structural, mechanical, electrical, instrumentation and piping services, we are extending that into the complementary markets of mining, pulp, paper and the chemical industries. Daniel.

Daniel Grobler
So last year I went through about three months of therapy after talking about the Middle East. Again I want to reemphasise I've got confidence that further project losses will not be repeated in the next financial year. So we've had extensive visits to the Middle East. Three of the four contracts have practically been handed over to the clients. There is a fourth contract which is the Marriott Hotel which is in Oman. We have had some client delays. That project is 98% completed and that's expected to be handed over in a [unclear] timeframe. But we are confident both from an audit point of view and an accounting point of view we have accounted for all known costs on that.

From an uncertified revenue point of view we've got the Dubai Airport claim. That ruling is expected by no later than the 4th November. And then there is some uncertified revenue taken on the Al Mafraq contract. But from an accounting point of view next year you will see another R34 million loss, and that relates to overhead expenses and some legal expenses, but no material project losses expected in the Middle East.

If we look at Bombela investments in the current year we recorded a profit of R277 million. in the prior year if you back out the R166 million provision release I talked about in BCJV you get to a comparable figure of R253 million. So these businesses combined together hopefully next year June Middle East is out of the system and at some point we can talk about dropping that to discontinued operations. At this point in time it's still too early because the company is trading. It is under the IFRS accounting standards as an abandoned operation. An abandoned operation you have to keep reporting under continuing operations. But Henry mentioned the investment in Bombela Concession gives you cyclical income in a business where we are exposed to cyclical upturns and downturns across the business. Thank you.

Henry Laas
The Middle East is a business which is basically standing on its last legs. We have delivered our obligations. At the time that we decided to exit this sector we couldn't find a buyer for this business and we had to see through our obligations. And we've done so, and we've reached the end of the road now. So it is effectively in a position by June of next year that we can say that it is now part of discontinued operations. It will carry on maybe for another year or so. There are lots of smaller creditors and issues that need to be sorted out and companies that need to be closed down. The office that we have in Dubai is probably the size of a single garage. It is very small. Not much cost being incurred.

The investment in Gautrain, the Bombela Concession Company, this concession period runs until 2026. On a normalised basis we should expect about R22 million per annum of profit and then supported by a cash dividend. At the end of 2026 we will consider what is going to happen after that. Either the province may decide to extend the concession period with BCC, they may decide to go to the market and ask for new tenders, or they may decide to do it themselves. We just don't know. It is early days still, but at least until 2026 we have this annuity income of R220 million per annum.

So we are getting to the end of the presentation. What we would like to do is just recap on a couple of strong messages. I think first of all the order book. It's important to see the order book. You have seen the breakdown earlier on in Daniel's slide. This is just a different presentation of the same information. Again it shows you the geographic spread. It is a 60/40 split. 60% is in the international market, 40% is in the SADC region. And on the far right-hand side you can see the time distribution of that order book, how that will be extended over a three-year forecast period.

I just want to take a few moments to talk about this slide. This is the way in which we represent to the market our order book and our pipeline. Now, the pipeline excludes the order book. The order book is separate. It has already been secured. It is contracts in place. It is work that we are executing. The pipeline is near orders up to category three. The new order is where a client has told us that we've got the job subject to commercial and financial close. That we classify as a new order. There is R7.9 billion of that in the Mining platform. It happens quite often that a project would move into the order book but never find itself in the near order position. And that is category one. Of that category one value there is R63.8 billion of tenders that we have submitted. Now, surely we are not going to win all of that. Maybe you are going to get 10% or 12% success rate on those tenders. But many of those tenders will move straight into the order book and not be a near order. So a client may say to you I'm happy with your position, I'm happy with the financial position, I'm happy with the commercial position. There is no further negotiation required. It goes straight into the order, we execute the contract and move on.

Category two represents value on projects where we are working either on the feasibility study or where we are doing budgets for clients. It is not as far progressed as being in a tender phase, but we are working on it. Essentially what that means is category one and category two are extremely important. It tells you that the group has submitted tenders to the value of R64 billion which are under adjudication and is working with clients on projects to the value of R125 billion in the form of a feasibility study or on a budget estimate. Category three is not blue sky. Category three is again projects that have been identified and have been named. But the clients are not at the stage that they are engaging companies such as Murray & Roberts to start assisting them either on a feasibility or on a budget. So it is further out. But the significance of this slide is you need to understand the value in category one and the value in category two, these are real. These are opportunities that we are working on. But as I said maybe we have a 10% chance of success rate on these tenders.

This is the final presentation slide. Now, a lot of information was shared with you guys today. It is all in the booklet in that information pack. But if there are a few key points that you need to take with you after this meeting it is the key points that you see on this slide. The first is again to understand who Murray & Roberts is as an organisation. It is captured in that first bullet. Last year, FY18, was the first completed year for Murray & Roberts as a significantly transformed organisation. We have a very solid balance sheet. We've got a strong project pipeline that we're working on. We do expect in the Underground Mining platform growth in earnings in the new year, and that is supported by that order book. I maybe just want to make a comment here. This is not a forecast or anything. Our expectation is that the mining business will grow in FY19. The Oil & Gas business we expect a similar result in FY19 as for FY18. The Power & Water business we do expect to come down a little bit. It will be a smaller business going forward. But the three business platforms combined we would expect to at least achieve the result that we have reported in 2018. At an attributable level the growth will predominantly come from a non-repeat of the losses in discontinued operations that we have in the past financial year.

Cost management is important and we are targeting a 6% overhead cost through the business cycle. This is a percentage expressed as a percentage of revenue. In the down cycle revenues are low. You need to maintain your capacity in the business. Then your overhead percentage is up. If you're in a strong part of the cycle revenues are up, overheads as a percentage are down. But through the cycle we are targeting 6%. Engineered excellence is not negotiable. And I said this morning when I spoke to our employees we are becoming more and more optimistic and enthusiastic about the fact that this concept of engineered excellence is being understood more and more throughout the group. And we are starting to see that in the standard that we are achieving in many things that we do within the organisation. And then I think the final point, and Diane has covered that really well, is the independent board remains firm on the R20 to R22 per share value range for a Murray & Roberts share. So ladies and gentlemen, that brings us to the end of the presentation. We will give opportunity for a few questions. Ed, if you can manage this for us please.

Ed Jardim
Thank you Henry. We've got microphones at the front and at the back. We will start in the room. Do we have any questions for Henry or Daniel?

Female speaker
[Inaudible question].

Henry Laas
As far as the first question is concerned, the Grayston enquiry is being controlled by the Department of Labour. They are managing this process. We have recently what we believe is reached the end of the enquiry. I think the last sitting was within the last month. And all the submissions have now been made. It is now up to the presiding officer to document his findings. And the indication that we received from him is that that would happen by the end of this calendar year by December. And then the next step is he has to submit this to the National Prosecuting Authority and they must decide whether there is going to be any further action required on it or not. The second part of that same question is are we exposed in any way. We don't believe that there is any further exposure to the group other than what has already been accounted for in past reporting periods. Should there be any third party claims, that is adequately covered by the insurance that we have in the group.

Bombela Concession Company is a company where we have the investment. And I guess you should see as a subcontractor to the Bombela Concession Company is the Bombela Operating Company. Murray & Roberts doesn't have a shareholding in the Bombela Operating Company. That is a service provider into the concession company. So there was this strike. I think it was just more than a week. There is an impact on that. As far as the concession company is concerned there are certain performance standards that are met, and if you don't achieve those performance standards there is a penalty that applies. We are still in discussion with the Gautrain Management Agency, the GMA, as to what the extent of that penalty is going to be. But it is not going to have a massive impact on the contribution that we will get out of the Bombela Concession Company. So the R220 million per annum is still intact. Any further questions? Yes Mark.

Mark ter Mors
Mark ter Mors of SBG Securities. A question relating to your global mining. I see the order books are very neatly 70% in Australia and 19% in the US. What do you expect is the impact of the lead times that we see lengthening on machinery equipment? To what extent in other words do we see that order book translating into revenue growth?

Henry Laas
I think the lengthening of the lead times on the equipment delivery is an indication of a market that is heating up. And so is the expenditure on exploration. We didn't include the slide in the presentation, but we do have a slide of global exploration spend. And that has also increased quite significantly. So these are all lead indicators indicating to us that this market is getting stronger. I don't think it is going to impact the award of tenders. All that is going to happen is that the delivery of that order book may be impacted by the lack of machinery or equipment that may not be available. But that is all included in our forecast.

Daniel Grobler
What I may add is when they tender they do take into account lead times of the equipment. A lot of these projects are actually brownfields projects where some of the clients have got existing machinery which we take over etc. So in terms of having the order book and executing it based on this extending lead time, the lead time is taken into account in the bids. As I say they are currently sitting at record high order books. These additional projects that they are securing have all taken account into executing them.

Mark ter Mors
From me another one. IFRS 15 and 9 for implementation in 2019, how do you see it impacting the revenues [overtalking] the uncertified revenues.

Daniel Grobler
It's a bit of a tricky one. Let's start with IFRS 9. So IFRS 9 states that there has got to be an existing reason for you to take a provision on future debtors and recoverability. Sorry, that's the previous IFRS. The existing IFRS says you've got to have a look at all your clients. And if you take a look at all your clients you've got to estimate the credit risk and do the credit rating on them and then estimate what the impact will be. We believe and it has been disclosed in our financial statements the impact will be less than R150 million for IFRS 9. IFRS 15 is the important one. So there the threshold of recognising revenue in the past has always been it's got to be probable that you're going to achieve that. Under the new IFRS 15 they have shifted that and they've said it has got to be highly probable that you won't reverse any revenue that you've taken to book.

So of the R1.3 billion you don't only look at the uncertified revenue you have taken to book. You also look at other revenue we've taken to book, as an example in the power programme. And in the power programme we took a view as to some of the claims raised against us and we took a view as to writing some of that back. We took a view on the uncertified revenue and the claims and we wrote back a portion of that. And the range that we've put in the financial statements is the adjustment is going to be between R700 million and R1 billion. But the important element of that is that mainly relates to Middle East as well as the Power & Water platform. so when you look at a valuation of the company the bulk of the value of the company is sitting in the Underground Mining where there is going to be zero reduction of valuation as well as in Oil & Gas where there is zero reduction in the valuation or uncertified revenue. Some of these revenues go back up to ten years on the Gautrain claim as an example. But we have had experts both internally and externally looking at these claims. In the history of Murray & Roberts we have never recorded revenue lower than the uncertified that we've taken to book. So we're quite bullish about the R1.3 billion we've taken to book. But we've got to apply the strict accounting standard threshold to those items to be compliant with the accounting position on that.

Henry Laas
So whatever the final adjustment is it's not any indication about our confidence or lack of confidence about recovering the money. So our uncertified revenue we conservatively stated. Diane mentioned earlier on about the external opinions that we had on that. So we believe that we should actually recover the R1.3 billion.

Daniel Grobler
Of our total claims in favour of Murray & Roberts it is between R4 billion and R6 billion. We have only taken R1.3 billion to book. But it is applying the new technical accounting standard that we've got to adopt. But it is a very good IFRS question. Please don't ask more.

Henry Laas

Any further questions?

Afrifocus Securities
Hi, it's [unclear] from Afrifocus Securities. My question relates to the Australian market in terms of the strong complementary markets. I was just wondering in the context of the competitive landscape now that the infrastructure market is growing quite aggressively there where Clough is actually positioned in terms of that competitive landscape in Australia.

Henry Laas
Do you want to answer that question, Peter?

Peter Bennett
Certainly there are a lot of established contractors in that space, although the market sectors that we are pursuing within that are complementary skills we bring across from the oil & gas sector. So in that space we certainly have competition but it's not excessive. One of the things that does actually support our entry into that market is given the volume of projects the industry's capacity to pursue them all is somewhat constrained. So there is very clear opportunity for us to enter that market now.

Daniel Grobler
Peter, again I think it's very important Clough has got a very rich and proud history that goes back many years. So it's not a market that is foreign to Clough. It's market that Clough has operated in for many years as well.

Peter Bennett
You're right there, Daniel. I think those segments are historically Clough market segments. New South Wales is perhaps a market that we're not as well known in, but we are establishing ourselves very quickly there now.

Henry Laas
Further questions? Five, four, three, two, one. Done. Thank you very much. Thank you guys.

Daniel Grobler
Thank you.

END OF TRANSCRIPT