Conference call transcript

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INTERIM RESULTS PRESENTATION

Henry Laas
Thank you. Ladies and gentlemen, welcome. Also welcome to the people that are on the webcast and a special word of welcome to Mahlape Sello, our Chairperson, and also to Suresh Kana who is the Chairman of the Audit Committee. I will not disappoint you. I will say something about the movement in our share price. Indeed we are living in exciting times. It was the budget speech yesterday in South Africa and Mr Gordhan had a lot to say. I think us taxpayers are not all too happy with everything that was said yesterday but there is nothing that we can do about it. There was also a lot of interesting articles recently in the media and Macquarie specifically talking about commodities pulling out from the vortex. And as you know as a group Murray & Roberts is exposed to the natural resources market sector. The commodity cycle is quite important for our business. And it is quite exciting that it appears to me as if there is broad consensus amongst many analysts and researchers that we're getting to the point that commodities indeed may be pulling out from the vortex. And then there was also the recent frenzy around the trade, the exceptional trading volumes in Murray & Roberts shares since Thursday of last week. And we did put out two SENS announcements yesterday in this regard, and I will also say a few words about that. But the main purpose of our meeting today is to talk to you about our results for the first six months of the 2017 financial year.

I want to start off with this slide. Most of you are familiar with Murray & Roberts' strategy. We have been communicating this to the market for a number of years now. And what this slide tries to explain to you is the new strategic future for Murray & Roberts unfolding. In the block to your left, block number one, we talk about the group today being a multinational engineering and construction company. It has transformed from being predominantly a South African construction business to a multinational engineering and construction company that is focussed on the natural resources market sectors. As a consequence of this new position of the group we also received approval to move our listing on the JSE from the heavy construction subsector to the diversified industrial subsector. And that communication went out on SENS I think it was on Monday this week. And I think that probably is the strongest signal to the market that Murray & Roberts today is very different to what the company was a couple of years ago. We believe our strategy and our business model is well defined. Our business model is to provide a service offering across the lifecycle of a project in the oil & gas, underground mining and power & water market sectors. And that has been also well communicated to the market.

The opportunity that we see for our business is once the commodity cycle upturn happens through our business model and through our international diversification as a group we should start to see the benefit of this strategy finding its way through the income statement and financial results of the group. This plan has also resulted that the group today has got a strong balance sheet. There are very few companies which have been exposed to prolonged weakness in the commodity cycle that can towards the end of this period of weakness say that they have a strong balance sheet. We sit with the position of cash net of debt of R1.1 billion. And we all know at half year and at full year the position on the balance sheet is as on that day and there is normally movement before and after the balance sheet date because I think it's also common knowledge that we would like to have a good balance sheet at the reporting date. But R1.1 billion cash is a good position to be in. And that's cash net of debt. And what that allows us to do today is to be a company that is active in the natural resources space, that is exposed to the cyclicality of the commodity cycle, and to be in a position whilst he commodity cycle is depressed, when producers are not investing in projects and when we don't have much business opportunity to trade through that period and to be strong in trading through that period.

And then our order book. The face of our order book has changed. I talk about robust near orders and project pipeline. But I don't want to mislead you. Our order book is very low in the group. We are finding ourselves far down the commodity cycle that's been hard on companies that are dependent on the commodity cycle. Our order book is down, but I want to talk about the quality of the order book. I'm referring to the quality of the order book. A couple of years ago we had billions of Rands of value in the order book that represented projects in the Middle East. And all of those projects were lossmaking. So we ask ourselves the question, what is the purpose of having a large order book but was not quality in that order book? So I believe although the order book today is low, and we would love to see the order book at much higher levels, there is quality in that order book. And that is good for us to note that. And then despite the fact that the Oil & Gas platform has experienced the sharpest rundown in its order book relative to the rest of the group we are very pleased that the Mining business has managed to maintain a reasonably strong order book even whilst the commodity cycle has not really started with a strong upturn.

So, ladies and gentlemen, I think this is my introduction to this results presentation. And that is just to confirm to you again that Murray & Roberts today is a different organisation than what it used to be in the past. And we are set up the way we are set up to benefit from the upturn in the commodity cycle should that start to materialise. This is the way we project the group when we communicate to investors and internally. Three business platforms, Oil & Gas, Underground Mining and Power & Water. And we share the same purpose, vision and values as the organisation. A few years ago, and I think even today, if you talk about Murray & Roberts people will associate Murray & Roberts with the Gautrain project that we've built. It's a fantastic project. From a financial point of view it didn't turn out all that well for Murray & Roberts as a group. We built the Dubai Airport. A fantastic project. From a financial point of view it didn't turn out all that well for the group. The Burj Al Arab in Dubai is a project that we built. Fantastic to have in your CV. It didn't turn out all that well for the group. So we are no longer the business that is building the projects that the man in the street would associate with the brand Murray & Roberts.

So what I'm trying to do with these photographs here is to share with you the type of projects that we as an organisation work on, flagship projects in Australasia and Papua New Guinea. Peter, if you could stand up please. Peter is the CEO of the Oil & Gas platform. That is the work that Peter and his team are undertaking, onshore and offshore work. Underground Mining flagship projects in Africa, the Americas and Australasia. Orrie Fenn is the CEO of that platform in the mining business. A very important pillar of Murray & Roberts. Power & Water platform, flagship projects in South Africa, Ghana and Mozambique. I should have said Botswana as well. Steve, if you could stand up please. The CEO of the Power & Water business. And as you could see from these photographs very, very different to the type of work that you would normally associate with the Murray & Roberts brand. So a complete change from our past.

But let's move on to the results for the past six-month period. And I want to start off with this slide. I think it is a very important slide because it sets the tone and it sets the context of our results. On the left-hand side corner of the slide what we're explaining here is the movement in our results for the six-month period to December 2016 compared to the first six months of the previous financial year to December 2015. And I'm referring here to the major movements that happened between the two six-month periods. The first is the decline in the earnings from the Oil & Gas platform, R172 million. The result for the first six months is 100% what we have budgeted for the Oil & Gas platform. It is significantly down from what we reported in the first six months of the previous financial year. But it is 100% in line with what we expected in terms of our business plan. We have guided the market on more than one occasion that the impact of the earnings coming through the Oil & Gas platform will be material on the group. And we see that through the results that we're reporting now.

I've mentioned the Middle East. As you know we are exiting the Middle East. We are completing four projects that we are still working on. The last one to be completed should be completed by about November this year. But it is a very expensive process of completing these projects and closing out the business. Relative to the first six months of the previous financial year a further R130 million cost incurred in the Middle East. The Middle East business today is the only remaining burden that we have within the group. If I talk about a burden I refer to of the past. I think as soon as the Middle East business is closed out that burden would no longer weigh heavily on us as an organisation.

And then forex movements. In the prior reporting period there was a R233 million gain on our intercompany loan account balances. And in the first is months of the current year it was an R11 million loss, to a movement of R244 million. That obviously excludes the conversion of our Australian Dollar profits and our US Dollar profits and Canadian Dollar profits converting back to Rands. The impact of the exchange rate on that conversion is not there. The R244 million movement purely refers to the intercompany loan accounts.

And then you are all familiar with the voluntary legal programme, the settlement which was reached late last year between the seven large construction companies and the South African government. And that relates to the collusive conduct of the past and also a really creative transformation drive initiative for the local construction sector. All the construction companies are talking about and reporting on in the impact of this agreement. And as you know for Murray & Roberts it's a R255 million to be paid in equal instalments over a 12 year period. And if you calculate the net present value of that obligation it's a R170 million charge that went through the income statement in the first six months of this year.

So the total impact of these events comparing the first six months of this year with that of the previous financial year is captured in a movement of R760 million. Specifically for the six months if you look at the six months up to December of last year revenue of just short of R11 billion is R2 billion down on the six month period of the prior year. Diluted HEPS of 27 cents is way down on the 93 cents of the previous reporting period. And then an attributable loss of R60 million. But I think you understand that in the context of what I discussed, the first block on the left-hand side. I've referred to the cash already, net cash or cash net of debt of R1.1 billion. And then the order book for continuing operations which excluded Genrec and excluded the Infrastructure & Building platform is down to R24 billion. And 12 months ago it was R35 billion. And I've already mentioned that we feel the pressure of the low order book, and that is something that we are working on. And we are hopeful that in the not too far future we will start to see significant value finding its way into our order book.

And then finally just a salient features. The settlement of the Gautrain development period dispute. That is a major event for Murray & Roberts as a group. We've been exposed to the Gautrain project for many, many years. The losses that we've incurred on the Gautrain project and also the ongoing risks – you are all aware of the coverage in the media about future potential work in the tunnel and water problems and this and that and many other things – we have now come to a point that the Gautrain matters, the development period or the construction period disputes that we've had have all been settled between ourselves and the government. So the uncertainty that might have created with investors is no longer there. It is out in the open. There is no further obligation that we have. And the settlement that we've achieved was fully in line with our uncertified revenue and Cobus will touch on that a little bit later on as well.

The sale of the Infrastructure & Building platform and Genrec is progressing well, and we are hopeful that by June at the very latest these disposals would have been concluded. What we are really very pleased about is our safety performance. In the first six months of this year our lost-time injury frequency rate was 0.57. It is the lowest ever in the history of the group. And you can benchmark in the sectors in which we operate. This is world class performance. But we are very saddened by the fact that we did lose one of our employees early on in the financial year in an incident where he was electrocuted working on the windfarm project in the Cape. And then finally on this slide, the subsector move from heavy construction to diversified industrial. The effective date was 20th March this year. As I said, probably the most significant visible illustration of the change which has happened in Murray & Roberts over the past couple of years.

Financial results I don't want to talk too much about – Cobus will cover it in a lot of detail – other than to say earnings from continuing operations was R119 million. Good performance by the Underground Mining business, marginally down on last year but a strong performance. The Power & Water business returned to profitability. Still not firing on all cylinders. Still not performing optimally. Still some issues that we need to address. But it is a profitable platform, offset by the Oil & Gas drop in earnings, the increase in cost in the Middle East, and as I said we didn't have any forex gains coming through the balance sheet in the first six months. And then losses from discontinued operations, predominantly the R170 million associated with the settlement with the South African government which will not repeat.

Safety, all you see here on the slide demonstrates the improvement which we have achieved over the past number of years. And one performance that I think we need to single out is the performance in the Oil & Gas platform. When we're talking about the six-month period here in the Oil & Gas business we haven't had a lost-time injury in Clough specifically. We haven't had a lost-time injury for the past 12 months. And that is a phenomenal achievement. If you look at the type of work that we do, the risks that we experience in the workplace, and to complete that without a lost-time injury is an outstanding performance. Peter, I think this is for you to take back to your team that this is commendable and we're very pleased with that. The Grayston incident, just a quick comment, the enquiry will recommence on 27th March this year. We have towards the end of January received approval from the Department of Labour to now complete the construction across the freeway. So you should notice from about early March that construction will progress over the N1 highway. So all in all we're very pleased with the performance of all our platforms from a safety point of view. I must also say that in the Mining business although it is not specifically mentioned on this slide we also had a phenomenal safety run in the Mining platform. Orrie and the guys are also doing a great job in that area. So now I hand over to Cobus. And as I've said to the staff when we presented earlier on, he is going to explain to you exactly how you do a hook up and commissioning project on the Wheatstone project in Australia.

Cobus Bester
So every year we get less and less people here. Hopefully it has got nothing to do with the results and what we do. Someone was interested in the company last week, if you're following the stock exchange. But I'm sure it has got something to do with the webcast. So for the hundreds of people out there watching this live, welcome. Henry referred to Orrie twice. I didn't recognise him with a tie on. A lot of the issues on the income statement Henry has explained in broad terms. From page 40 there is a lot of detail line by line. You can either follow it now or afterwards. But a lot of detail. Just on the revenue, you can see it's R2.3 billion down. The Mining business was more or less flat. The Oil & Gas business was 50% down. And Power & Water 56% up. But obviously Oil & Gas base number was a lot bigger, and hence the R2.3 billion reduction. I think the EBIT was explained in some detail, the foreign exchange movements, the R172 million reduction in Oil & Gas, so I won't dwell on that.

Taxation is fairly high. If you look at it it's close to 50%. And the reason for that is that there are large losses which we will see in the segment accounting in the Middle East. And you don't get any tax relief in the Middle East on the losses that you make. It's a tax-free environment so we get absolutely no benefit from those losses from a tax point of view. And then also the capital gains inclusive rate has increased as you know. And therefore there was adjustment on the fair value carrying value of the Bombela Concession Company. The R6 million, is our share of the profit of the Bombela Operating Company. We have a 23% share in that company and R6 million coming through. R170 million of the R179 million relates to the settlement. So the settlement is for R255 million. The net present value is R170 million. You recognise it straight away. And there is also no tax relief on that, not that the tax would have been on the tax line, it would have been offset on this R179 million.

Moving on to the balance sheet, again a lot of detail at the back. We're comparing December to June here. In the detailed announcements we also have to December 2015. But bearing in mind that we've only reclassified the discontinued operations, Genrec and Infrastructure & Building, in the June numbers. So the December 2015 numbers still show it as it was reported. And then to compare December 2016 with reclassified numbers to December 2015 would have been difficult to follow. So property, plant and equipment capex was about R370 million, 75% in the Mining business. And of the R370 million about 65% relates to expansion capex. So that is good news. We are not spending anything on capex unless you have a project.

Other non-current assets came down by R1 billion, and this is effectively the settlement of the Gautrain. So we carried the uncertified revenue for years. And we have never disclosed the exact number. So on a 100% level – and we are 50% in that joint venture – we carried a R1.7 billion uncertified revenue. So the settlement in the end on the different claims, the delay and disruption, the Jean and John, the Sandton cavern and so forth, was more than the R1.7 billion. But we had the issues in the tunnel, the section between Park station and Rosebank. So we created the provision at 100% level again of about R600 million a couple of years ago. So as it turned out we got more on the claims, but the amount that we settled on as damages or compensation to the client for the issues in the tunnel was also a little bit more than the R600 million. So the settlement amount was for R1.1 billion excluding VAT as disclosed in the announcements previously. So there wasn't an income statement effect on the particular settlement. It was book value. But we released some of the other provisions, maintenance provisions, in the civils joint venture. And you will see under segment accounting a little bit of profit came through.

Uncertified revenue sitting there under current assets – and the detail is in the pack there – is now down to about R1 billion. So it used to hover around R1.5 billion to R2.2 billion. So it is now down to about R1 billion. And about

75% of that relates to the contracts in the Middle East. Four contracts still left there. All four should finish in this calendar year. And of course then there is the Dubai Airport claim that has been with us for the last ten years. The cash that you see here and the net cash, so the cash, the debt and the net cash, is all after taking out the debt and the cash that will go with the Infrastructure & Building business. So it is down on last year on June. It is slightly up on December, but it is down on June. It was anticipated because in the second half of your calendar year, first half of your financial year you've paid out your dividends for example. That's one of the aspects. There was a R245 million foreign conversion calculation and reduction. So about 80% of the cash is in Australia and Americas and the exchange rate in June was very different to what it is now. And therefore the adjustment of about R245 million.

Assets held for sale, the net amount between the assets of R1.29 billion and the R1.659 billion at the bottom is about R530 million. It is made up of the R314 million, the Infrastructure & Building business, the R185 million Genrec sale and the R32 million still left on the Clough properties, property development that they've done many years ago. So we don't have a separate slide on the Infrastructure & Building sale. We expect effective date to be either 1st April or the 1st May depending on when we're going to get Competition board approval. That is more or less the only CP still outstanding. There are a few others, but it is more to do with consents. And the transaction value is the R314 million. So on reporting date June December as Henry said earlier on the cash is slightly inflated as we all know. But on a normalised month end you're not going to have those spikes in cash positions. So I suspect that the net cash or the cash less the debt in that business would more or less be the same. And in terms of the deal that we've made any shortfall to hit R314 million will be topped up with cash. I don't expect that to be a lot.

The next three slides I'm not going to spend a lot of time on. You can have a look at it, flip through it very quickly. But I think the message that we've given in the past was with the changes that have taken place in the business over the last few years most of our revenue and most of the profits are outside South Africa. It is slightly different in the results that you see today. And the reason is quite simple in that the Oil & Gas business profits came down substantially. Hopefully in a year or two once we are back to normalised levels 85% of the profits and 85% of the revenue will be from outside the country. And this is in these graphs. We have excluded the investment in the Bombela Concession Company. From a value chain point of view we have said we want to do less construction work and more engineering work, more commissioning work. So what we've classified as operations in the previous slide is also the work that we do on mines where we do the mining for the client. So all the regions that we work in, Australia, South Africa, Canada and America, we have mining contracts which is different to the capital work that we do also on mines. And we hope that that will grow. It is slightly lower margins but it gives you a very good base load.

Moving on to the segment reporting, Oil & Gas, you can see in the far right-hand corner that the order book came down from R9 billion to R4.9 billion. When we talk about the prospects and the near orders – and Henry will deal with that – you will see that can change dramatically, but you need the oil price to get to the level of probably above $60. Revenue came down 50%. What stands out here is that the construction work and the order book is quite low. It is really two contracts that we have there. There are no problem contracts. There are no lossmaking contracts. The small loss that you see there is purely the unrecovery of overheads. Still commissioning and brownfields doing extremely well, margin 13%. Revenue has come down. We are now coming to the end of a large contract, the Wheatstone hook up and commissioning project, a large contract. It will come to an end probably before December. And that needs to be replaced. We mentioned the Wheatstone jetty last year. We took uncertified revenue to book last year, and hopefully we can still settle that in the next 12 months. However, if you follow these projects in Australia you will know that all the clients have budget overruns, and when there is a dispute first prize is always to settle. But they have cash constraints and it is possible that we will have to go through an arbitration process, and that will take 12 to 18 months to complete.

Underground Mining, again no problem contracts. You can recall we had a few problem contracts a few years ago. That has all been worked out of the system. The African business has the potential to do a lot better in the coming years. And the reason for that is that we are in line to get a number of mining contracts. The one that has been in the order book for a while… So the order book is R12.9 billion and included there is the Kalagadi project. It has been there for a year and a half, maybe two years. We hope that job will start this financial year. That's a five-year contract. The manganese price is probably where it should be, so there is no reason why this job should not go ahead. We are doing work at Booysendal. There is an extension coming up. We have submitted three or four tenders in the last two months in excess of R2 billion or R3 billion. So this R1.7 billion revenue reported in Africa should go to R2.5 billion. If that happens you will see a dramatic improvement in the profits. Australia had a fantastic year. Their order book is secured more or less for next year. The only negative related to Australia is that their client in Indonesia has issues with the Indonesian government on the mining license. But that has happened three or four years ago and eventually they settled on a different royalty regime. And we're pretty sure that will happen again and it will not affect our work there. The Americas the order book is low. Profit has come down quite a bit. We have been getting used to reporting 8% or 9% profits there. And the 4% that you see there is purely as a result of low revenue levels.

Power & Water, a very nice turnaround from last year. The power programme for years we've been saying that Medupi and Kusile will come to an end. But every year the order book has gone up and up and up. It is now the first time really that we've seen a reduction in the order book. It came down from R6.9 billion to R5.3 billion. It is possible that we will maintain that level for perhaps a few months because we get variations all the time. But these power stations will come to an end at some point in time. And it is between 2018 and 2021 most probably. But by then all our work is done. So still a good, solid performance from the power programme. And then on the balance MEI stands for mechanical and electrical instrumentation. We used to call it engineering, but that's really what it is. It is water, mechanical, electrical and instrumentation. Excellent contract in Namibia. It is an electrical instrumentation contract for Husab. Very good results. But unfortunately we have picked up a problem contract at Kusile WFTG. Nothing to do with Hitachi; a different client, but at Kusile. We have taken the view that we will book the full loss, which is the R116 million. We haven't taken any claims to book. We have now started the process. And most certainly we're entitled to something. But we felt that the discussions are not at an advantaged stage and therefore we have taken nothing to book.

There is a slide towards the end on discontinued operations. You will see the revenue from the Infrastructure & Building business is about R2.5 billion. They made a profit of about R35 million. And Genrec was more or less breakeven, but I'm not going to go into detail. I think that was my last slide. Oh, Bombela and Middle East. So there is another one. Bombela and Middle East is made up of the concession investment in Bombela Concession Company. We use a cap rate of 18.5%. I think it's a conservative cap rate. I think it's a fantastic investment. Still nine or ten years to go on the concession period. And towards the end of the concession period of course when the debt is paid back then there is a spike in dividends as you generate more cash out of the business. But you can also then see there was some release out of the construction joint venture, and that is just the close-out of the construction period. The profit that we release has got nothing to do really with the settlement that we reached with the client.

And then the Middle East, R173 million loss. And that's disappointing. Most of the loss is coming from the Mafraq Hospital. The Mafraq Hospital is in Abu Dhabi. It is a 3.8 billion Dirham project and you multiply it by more or less four. 800 beds. And you come to a conclusion it's not a hospital, it's a hotel that we're building with medical facilities. We've got a difficult client. I'm not too sure how we can come to a conclusion that the Abu Dhabi government doesn't have the money. They must have the money. But difficult partners. We are a 30% shareholder only in the project. Our partner is Leighton Habtoor. I think they have many more similar projects so they have many issues to resolve, and this is just one. We have forecasted a loss at 100% level of R100 million for two or three years, and then changed it in this reporting period to R150 million. And hopefully we can close this project out in October at that level. I think that was the last slide. Yes. Thank you.

Henry Laas
Thank you Cobus. You will agree with me that Cobus has got the ability to explain financial results very well even for non-financial people to understand it and make them feel they are very good in finance after they have listened to Cobus. As you know Cobus has decided to retire from the group. That was communicated a couple of months ago. And today is actually the 12th time that the two of us present results. And I cannot think that time has gone by so quickly. The 12th time. I want to thank Cobus for that. It was really a great experience. Jokingly this morning when we spoke to our staff I said to them I will see whether maybe I can get some anti-aging for Cobus and maybe a makeover, and maybe we can get a couple of more miles out of him. But we will see. But Cobus, thank you very much. It was a great experience.

Ladies and gentlemen, I would like to move on and talk a little bit about the order book and then the balance of the presentation. What you see on this slide is a waste water treatment plant. Now, what are you looking at? What do you think is depicted on that photograph? What does it look like to you? It's a waste water treatment plant, but what is it? It looks like a greenhouse. It looks like a greenhouse because there is plants inside there and vegetables which you can eat. But that is a sewerage works. And this technology, the Organica waste water technology, we've got the licensing agreement with Organica, which is a Hungarian company. There are about 60 of these waste water treatment facilities operating all over the world. We are at a point that in May of this year we've got a demo plant that will be arriving in South Africa that we will erect in KwaZulu Natal. And we are hopeful that this will start to take off. There is tremendous interest from many sources in this technology and everybody wants to see an operating plant before they commit to an investment. But very interesting. It is part of the initiative that we have to grow our water business. I don't think that we can say today that we do have a water business. We are still in the infancy stages of growing a water business. And if you want to be in this business it doesn't help you to compete with all the other players in the sector when margins are very low. Unless you can differentiate and bring something unique to the market you're going to lose your boots. And this is just a photograph to show you what it is we have in mind.

The order book, I've already said that the order book is under pressure. I think in Oil & Gas and Underground Mining you can see the order book being on a decline. That is what we experience as we move through the commodity cycle. The Power & Water order book Cobus has spoken to you about. We have had some acceleration on the works during the past year so we are working through this order book more quickly, and it will eventually come to an end, specifically the work that we do on Medupi and Kusile. So we need to secure work, substantial work between now and then to maintain business activity at an acceptable level within this platform. But I will touch on that a bit later. The business in the Middle East, what you see there is just a blip. That order book will run out by December this year. That's a part of the order book that we're not concerned about the fact that it is running out because we're losing money on that revenue. But it will disappear. Discontinued, we show it still, but I think at the end of the year these transactions around the Infrastructure & Building business and Genrec will be concluded and then we will no longer report on it. So what you see on your left-hand side of the screen, Oil & Gas, Underground Mining and Power & Water, those are the three pillars in the business that represent continuing operations. As I said Middle East will disappear, discontinued will disappear, and we know that the focus is to grow this order book to levels where we think it should be in a good, strong upturn in the cycle.

I don't want to say much about this slide. Maybe just to note, as Cobus has said when you look at the profit split between our international businesses and the South African businesses it is slightly different to what it has been in the past because of the drop in earnings in the Oil & Gas platform. And the same applies to the order book. Although the Oil & Gas order book is 100% international the relative size of that to the balance of the order book is not all that high anymore, so you end up with a split that represents 60% SADC region and 39% international. But we are confident that is just a matter of time and that balance will be restored again that we had in the past reporting periods.

The order book, the new orders and the pipeline. I think you're familiar now with our definitions. What's in the order is in the order book. It is not part of the pipeline. The pipeline talks to new orders category one, two and three. Near order is work that we basically have secured but we still need to conclude an agreement with the client. Sometimes you don't conclude an agreement, but 99% of the time we do. So it is very likely that that value, that R9 billion for continuing operations, will soon move into the order book. Category one is tenders that we have submitted awaiting adjudication. R22.4 billion in the Oil & Gas platform that needs to be adjudicated. Now, we won't get 100% success on all the bids that have gone in. maybe we will get 10%. But some of that value we will secure. But the big number is the R250 billion in category three. Category three are projects that we have identified as a group per platform that we believe we've got a fair chance of winning and securing. The common mistake that many people do is they tender on each and every opportunity out in the market. And you will be surprised to learn how expensive it is to prepare a tender and the cost associated with that. Now, that would be very reckless and very irresponsible to just tender on any opportunity that you see out there. So the R250 billion represents selected opportunities that we will tender on as and when these tenders are put out for companies to bid on. It sounds like a big number, and it is, but the risk around that number is we don't know when these projects will achieve a stage of final investment decisions being taken and brought to the market for companies to bid on. But there is a solid, good pipeline of opportunities for us.

I want to move on a little bit to outlook and talk about some of our claims. Now, I'm not taking credit for the conclusions that I'm going to be drawing now. The credit must go to these companies that you see on the slide. So right at the centre, Macquarie. Are there any Macquarie representatives in this room? Anybody from Macquarie. There is the guy at the back. Don't be shy. Nothing wrong to be associated with Macquarie. Put up your hand. There's the representative from Macquarie at the back. Macquarie is saying that commodities are pulling out from the vortex. That's what they're saying. Standard Bank is saying there is a bullish metals outlook for Q1 2017. HSBC says that the market is moving back to balance. And Morgan Stanley is saying in the right-hand bottom corner, "We view this as a positive indicator of future FIDs and thus contract awards for oil services companies". So all of these research houses, if we refer to them as such, are coming out with a more positive view around commodities. I think for a long period of time it was a grim and dim view they all had on the commodities market. But I think we're getting to a point that we're starting to build some optimism, which I think is very good for our business.

And this continues on this slide. We see in the Australian Financial Review "windfall for mining sector could hit $20b". On the right-hand side we see positive signs for oil & gas. Coega in South Africa, R25 billion value to the proposed gas to power investment opportunity. So our view is that our trading conditions will not get more difficult before it improves. I think we are working through the most difficult period now and that we are readying ourselves for the upturn in the commodity cycle. And that is based on the research of other people, and we would like to believe that. And you can also say that our tendering department, Peter, in your platform is extremely busy to tender for work, and the same in the Underground Mining platform. Very, very active in preparing tenders.

Let's talk about Oil & Gas more specifically. And I want to start off by drawing your attention to the graph at the bottom left. What you see there is LNG supply from various regions. The bottom portion there represents LNG supplied out of Qatar, the yellow out of Australia, the green out of the Americas. And that dotted line there is 2017, and we're looking outwards towards 2035. And you will see by 2020 Australia will be the largest exporter of LNG where Qatar today is the largest exporter. However, in 2035 the US will be the largest exporter. So the US is presenting a significant opportunity from a position of no exports to being the world's largest exporter in 2035. Now, where is this LNG going to? On the far right-hand side you can see the supply or the export and the import. You can see America will be the largest exporter by 2035 and the Asian countries will still be the largest importer, which is also depicted in this middle graph. But where we are today with our platform the commissioning business, that portion that Cobus showed you that earned a good margin in the first six months, will still be a part of the market that we will be very active in for the next 12 to 18 months. Beyond that brownfields and maintenance work will be the main source of income in the Australasian region until about 2021, because people tell us that the LNG market will remain in an oversupply situation until about 2021. Having said that if you want to restore the balance in 2021 you start to invest earlier on and you need build get additional capacity so that you can be ready for that supply when the demand exceeds supply in 2012.

There are significant other opportunities in Asia. We have opened up an office in Jakarta, Indonesia. And Indonesia is going through a period of major investment in gas to power plants. Not only do those projects themselves present opportunity but it is gas-fired power stations which means it must get gas from somewhere. And it gets it from countries such as Australia that will export LNG to Indonesia. And once you export LNG you need to re-gasify it before you can put it through the power plant. So significant opportunities for us that we are targeting in Indonesia to be active in the projects around re-gasification that would present itself in the short to medium term. And maybe after the presentation if you want to have a bit more detail Peter is here and he can talk to you about it. We have spoken about the growth that we foresee in the US. But of all the greenfields projects – we know about Mozambique; people talk about the Mozambique projects that will go – our view is that Papua New Guinea is probably where we will see the first LNG greenfields investment to happen. Those projects are being progressed by the project owners. We are well positioned for that work. And we are hopeful to see some activity in the 2018 financial year regarding these projects.

Underground Mining, I give the credit to Macquarie for the conclusions that I've drawn here. What you see at the bottom of the slide is a graph or a chart which Macquarie has become rather famous for because it is being referred to by many users. Let me explain it here. The middle part of this chart is when the commodity cycle is really depressed at a down with a severe price decline and price pressure. As you move towards the greener side of the graph this is where you move into territory where there is an upturn in the cycle. The upturn continues in this part of this chart, and then you move down into the down cycle again. Just look where the commodities are positioned. Look at the end of the arrows. Diamonds, pricing to encourage supply. So capex is lagging, investment needs to happen. Gold is there. Chrome is there. US natural gasses. We have spoken about the US market. Tin is moving there. Nickel is in that space. Platinum is still not there, but it is getting close to that position. So by just looking at where these arrows are you can see commodities that are moving in the upturn of the cycle and those that are starting to move down the cycle. We are confident based on this research that our mining business is going to benefit from new investment in the short term.

Cobus has mentioned the contract mining jobs. We do it in all the main geographies where we work. And that is a fantastic business opportunity for us because it does de-risk the business a little bit from the correlation that we have with the commodity cycle. It provides a good base load of work for us as a group. The Australian business is doing remarkably well. As Cobus has said, US and Canada is really suffering a bit due to a lack of work. But there are significant opportunities that we expect to be adjudicated in the not too far future. Platreef mine is a platinum mine in South Africa for Ivanhoe Mines. It is a major investment to build a new platinum mine, and bids have been submitted. There are significant opportunities at Venetia, ongoing opportunities presenting itself. There are ongoing opportunities presenting itself at Booysendal. There aren't any major opportunities in the US and Canada right now, but a number of smaller opportunities which we are pursuing.

Power & Water. Medupi and Kusile, we have spoken about those two projects. But we will be doing high levels of work and activity until about June 2018, the end of the next financial year, by which time most of the major works that we are currently undertaking would be completed. And then you will see a sharp drop in revenues but there may be a long tail because post testing there will be lots of other work that we still need to do. But the drop will come as from about June 2018. We have got more visibility on that now. We are still doing a lot of work in the Power & Water platform in complementary markets. And Sasol has become a very important client for us. We are doing well on their projects. But the big opportunities, the next wave of big opportunities will be the Thabametsi and Khanyisa power stations which are being announced by government a couple of months ago, as well as the gas to power projects, Coega and Richards Bay. I don't think we're going to see much happening in the next three years on these projects. I know on Khanyisa that ACWA is the developer. General Electric is the successful EPC contractor. And GE is already talking to our people about certain packages. But nothing is going to happen in the immediate short term.

Efforts are ongoing to establish a meaningful business in water. And just out of interest, we are in agreement with Rand Merchant Bank to design, fund, build and operate water treatment facilities at industrial sites including hospitals which will provide water security and recirculation. And at this stage there is interest received from 19 Mediclinic hospitals and we have submitted the proposal to them. We will see how that unfolds. But very exciting, very different, very creative, not the run of the mill business that you will see in the water sector. Bombela we have spoken about. There is not much more to be said other than to say that it's a great investment for us, the Bombela Concession Company. And as I've mentioned the business in the Middle East, the projects will be completed by December. That for us is a relief because the experience that we had in the Middle East was not good. It cost the group a lot of money. But the end is in sight and we are pleased about that.

I think this is the final slide before I get to talking about what happened in our shares as I promised I would do right at the beginning. Claims update. The agreement on Gautrain, I don't want to talk too much in detail about it. Everything has been communicated through the media. Cobus has spoken to it. And we are pleased with the outcome. No further obligations relating to the development period. And it has been a long journey for us but we got to the end of it and we're pleased with the eventual outcome. The Dubai Airport. October and November the hearing dates have been scheduled. Subject to these hearing dates moving out we should get an award by February next year. There is a lot of work still going into this. It is significant value and we need to pursue it. We need to bring it to a close. And we think we are getting closer and closer to the end of the Dubai Airport claim.

On the last slide I will talk about Aton. The second-last slide is key presentation takeaways. When you get a lot of information like you did receive today what is the message that you leave with? I think first of all the disposal processes are proceeding of Infrastructure & Building and Genrec. There are no further disposals that we envisage. That would then position the group with our portfolio of businesses that we need to undertake the work that we would like to do in the selected natural resources markets. Again I've mentioned to reclassify our listing from the heavy construction subsector on the JSE to diversified industrial should be a strong signal to investors that the investment case around Murray & Roberts has changed completely. The settlement agreement that we've reached with government was expensive. We accounted for it in the first six months of this year. But it must have taken away a lot of uncertainty that investors might have had about future claims against the group from the public sector. So that's no longer there. And I think also the settlement that we reached on Gautrain takes away a lot of uncertainty.

That leaves Murray & Roberts then as a transformed organisation with our focus on multinational project delivery. The balance sheet strength we have spoken about, R1.1 billion cash net of debt. A substantial pipeline. The order book is under pressure, but there are substantial opportunities out there. It is a matter of time before these opportunities will come to market. Trading conditions in the immediate short term we think we are going to start to see some improvement coming through, based on the research of others, especially on the mining side. But as far as the Oil & Gas platform is concerned I think we are in for a few more months of difficult trading before the upturn will start to reflect itself in the business. And then for those reasons financial year 2017 we expect it to be down relative to previous years. And you see the results in the first six months. And we also think financial year 2018 will not be wonderful, because for the group to do really well you need all three platforms to do well. And they all need to fire on all cylinders at the same time. The Oil & Gas platform is still not there. So we will still see in 2018 financial year that the Oil & Gas platform is not performing to our expectation. But beyond that longer term a fantastic opportunity for us in that business.

So ladies and gentlemen, that takes me to the last slide. I think you have all been waiting to hear what I have to say about this slide. Okay. Where shall I start? Maybe I should say that we are familiar with the ATON group, and very familiar with the ATON group. When the trade in our shares happened on Thursday/Friday last week we did not know who the sellers were and we did not know who was buying the shares. And I think it was on Friday that we received from Coronation the notification that they had divested from their 11% holding. And then after that we got notification from Alan Gray that they have sold down to 15%. But it was only on Tuesday evening after I was driving home that we got confirmation from ATON that they were the buyer of our shares. So we did yesterday morning have a board meeting, which we normally do before our results. And most of the early parts of the meeting was taken up to consider what has happened since we now have a new major shareholder in the group. And we did put out the two SENS announcements during the course of the morning. But other than the notification we have not received to date any further communication from ATON regarding their investment in Murray & Roberts.

I did say earlier on that we're familiar with the ATON group. The first time we engaged with ATON I think was in 2010. We had a meeting with ATON in 2010 in London. And at that stage we were exploring the possibility of Murray & Roberts acquiring their mining business, which is the Redpath business. For many reasons those were exploratory talks and nothing much materialised from that. Subsequent to that we did approach ATON again and asked ATON whether they would consider selling their investment in Redpath, whether we could pursue an acquisition transaction. Also not much came from that. Then we engaged with them as from the end of September till April 2016, still on an exploratory basis but I think with more intent to see what the potential would be of combining the Redpath business with Murray & Roberts' Underground Mining platform. So we held those discussions and then in May 2016 we stopped having further discussions in this regard. At the time we saw merit in combining Redpath, which is in our assessment a little bit smaller than our Underground Mining platform from a contribution point of view. We saw merit in combining those businesses, but we couldn't come to an agreement on transaction structure or on relative value, and that is why we didn't proceed with any further discussions on that.

So we are familiar with ATON. It's a private investment company. It belongs to the Helmig family in Germany, a very wealthy family. And I did write a letter this morning to the CEO of ATON and I welcomed ATON as a new major shareholder in Murray & Roberts and asked for an engagement so that we can stat to talk about ATON and its investment in Murray & Roberts. So that is really as much as I know and what I can say to you. And we have noted that there was some further trade this morning in the share. If I'm not mistaken, if it is ATON – I don't know whether it is ATON – there has been a further trade of 12 million in our shares this morning. So if you ask me how do I see this, I see this as an opportunity. I don't see this as a threat at all. So I am pretty relaxed about everything that is happening. I did say to others I am pleased to see that there are international investors that see value in our investment case. Ladies and gentlemen, that brings me to the end of the presentation. So we want to move on to a question and answering session which Ed will manage for us. And we will also give opportunity for people on the webcast to put questions. Ed, over to you, if you could just manage the process. Thank you.

Ed Jardim
Thank you Henry. Just before we start on questions from the floor, as Henry mentioned, a reminder to those on the call and the webcast that you can log your questions now. We will deal with the floor first, and then go to the webcast and then to the call. For those in the room we do have microphones. Please wait before you ask your question just so those on the call and the webcast can listen in as well. Do we have any questions on the floor for Henry or Cobus?

Murray Connellan
Hi. Murray Connellan from HSBC. I just wanted to ask with regards to overheads in the Oil & Gas business. In your last result you guided that you had been able to reduce them by A$40 million. Did all of that cost benefit come through in this result, and do you think you could potentially reduce them further?

Henry Laas
The cost result is still not fully reflected in the result. What you see in the result of the period under review includes a lot of costs that were associated with rationalising and retention packages. So that cost is still contained in there. But the cost did reduce from about A$110 million to about A$70 million. So that's a A$40 million reduction. And that reduction will reflect in future reports.

Murray Connellan
Thank you very much.

Henry Laas
And just for interest, now that we talk about overhead costs, it is not included in the presentation but it is contained in the results release. From a corporate point of view our corporate overhead cost has reduced from R250 million in 2011 to about R130 million in the current financial year. So there has been a concerted effort across the group as a whole to manage overhead costs and to bring them down to levels that are required in a market such as we are currently trading in. Further questions. Marc.

Marc Ter Mors
Morning. Mark Ter Mors, SBG Securities. On the Middle Eastern losses for this period, does that include provisioning to take you to project closure or are there still risks?

Henry Laas
So what we do in the Middle East is we take a view on the financial position at completion of the project and we account for that position, so the losses that we forecast now at completion those have all been accounted for. What has not been accounted for is the ongoing legal cost that we incur on the Dubai Airport claim. We treat that as an overhead cost as and when we incur that cost. Further questions.

Ed Jardim
Could we perhaps have a question from the webcast?

Henry Laas
Yes.

Ed Jardim

It’s Pilau Husain [?] from Standard Bank. The first question was a comment on the 25% acquisition which I think you’ve addressed in the last slide. His next question is: what are the target margins for continuing operations in the short to medium term, and what is expected to drive these margins considering the competitive environment?

Henry Laas
We have guided the market on this before. Our aspiration is for all the three platforms remaining within the group to be at the level between 5% and 7.5%. And 5% is the level where you should be, where we would like to be in a difficult market as we are today. And 7.5% is when we are in a strong upturn. So it is not reflected in the results currently, but that is our aspiration. What will drive it? It will be first of all top line growth. I think from an overhead point of view we are as efficient as we can be. At the gross contribution level we are achieving the margins we think can be achieved in the current market. But then after overheads we end up with a net margin that is included in the results. And for us to get to the point that we creep into that 5% to 7.5% bracket and maybe move closer to the 7.5% we need top line growth that will not be associated with additional overhead cost within the group. But we need that commodity cycle to turn and we need to increase the top line, and then the results will start to reflect.

Ed Jardim
Thanks Henry. No further questions on the call and the webcast. Perhaps a last opportunity for those in the room for a question.

Henry Laas
Ladies and gentlemen, thank you very much. We appreciate your attendance. Thank you.

END OF TRANSCRIPT