Conference call transcript

2 March 2023

INTERIM RESULTS PRESENTATION TO ANALYSTS
PERIOD ENDED 31 DECEMBER 2022

Ed Jardim

Good afternoon to all our stakeholders in the room with us. Good afternoon to stakeholders on the webcast, as well as on the conference call. Welcome to the Murray & Roberts interim results for the six months ended 31 December 2022. Just before we kick off with the presentation, just some housekeeping in terms of health and safety. In the unlikely event of an emergency, there's two exits off of this floor. The first one is out these doors to my left, left again towards where the bathrooms are. There's an emergency evacuation door there. You depress the box which will release the door. Please go down to the ground floor. The ground floor is marked. Depress that box as well and that door will release. Out and around the building to the emergency assembly point across from the building in the public parking space.

Your second option is once again out these doors to my left towards the lift lobby. There are a set of stairs on each side of the lift. Please do not use the lifts. Please make your way down the stairs, down towards the ground floor, out the main entrance we would have come in this morning, and across the road to the emergency assembly point. Our HSE staff and security staff will assist in the unlikely event of an emergency. We are not doing any drills today. So, if you do hear an alarm, it is real. Just on bathrooms, once again, like I said, out these doors, to my left and left again. It's unisex bathrooms.

Then just for questions after the presentation today. We've got questions in the room. We've got questions on the webcast as well as questions on the call. For all of our stakeholders on the webcast, you'll see a box towards the left hand side of your screen. It should be there saying ask questions or ask a question. You click on that button. It should open up a dialogue box. Ask the question there and we'll receive your questions in the room and deal with them after the presentation. May I please ask that you ask your questions throughout the course of the presentation, which will enable us to have a constructive Q&A session towards the end. Thank you very much. Henry, over to you.

Henry Laas

Good afternoon, ladies and gentlemen, and welcome to our presentation. Also welcome to the people on the web, but especially the people in the room. I know nowadays, many companies only do webcast presentations. For us, it's nice to see people in person. So, I'm really glad for those of you that made the time to be with us today. As you can imagine, we'll be sharing with you a very difficult set of results today for the first six months of the financial year 2023 for the period up to the 31st of December. So, we will go through the numbers and hopefully we will be able to explain in sufficient detail so that there is better understanding.

As always, Daniel will share the bulk of the presentation with me, but we will also ask Mike and Steve, who are heading up our two platforms, to share the segmental analysis results with you. Just for background to the voluntary administration of Murray & Roberts Pty Ltd and Clough, the structure that we had that we had in Australia, our company structure comprised of Murray & Roberts Pty Ltd as a holding company. And then we had two subsidiary companies below Murray & Roberts Pty Ltd, the one being Clough and the other one RUC.

Now, RUC always used to be part of our Mining platform, so it's a mining company. And Clough was the company that was really the holding company for our ERI platform.

Now, we have in Clough secured quite a nice order book during 2017, 2018, 2019 of large price contracts. And we were very pleased with the progress that he's made that stage branching into new market sectors and accumulating that order book, which at the time fixed price contracts was the only commercial arrangement that was available to companies in that market sector if you wanted to secure projects. And as you know, a fixed price contract is a contract where most of the risk is carried by the contractors. And there's very little risk that's carried by the employer. Under normal circumstances with fixed price contracts, you really need to manage them exceptionally well to make sure that on completion that you do achieve your margins that you've planned for during the tender stage.

So, when we entered the COVID period in 2020, and 2021 specifically, this entire portfolio of projects were exposed to the impacts of COVID. Now, normally if you have a portfolio of projects, you can deal with an issue maybe on one or two projects. But if you have your entire portfolio of projects exposed to the impacts of a pandemic over a two year period, in 2020 and 2021, then you must understand that you will be in for a difficult time. I think we have managed the impacts of COVID as well as we could during the period. But our liquidity position became increasingly more challenging for us as a group, not only in Clough or our international businesses, but also in South Africa.

For those of you that are familiar with our cash management within the group, in South Africa, our corporate cost traditionally was covered by the dividends that we received from our investment in the Bombela Concession Company. And during 2020 and 2021, the Bombela Concession Company didn't pay any dividends. And the system was really operating with very low ridership levels, and it wasn't generating sufficient cash for dividends to be paid. And also, we haven't received during that period dividends from our international businesses. So, in South Africa, our liquidity position became a bit more difficult and came under pressure. And the same applied especially to the ERI platform. And we were managing that reasonably well.

But this time last year, or maybe two or three months later, around about June of last year, we recognised that there was a funding gap of about $50 million required in Clough in November of last year. So, the cash flow forecast based on the information available to us at that stage showed that in November, there would be a dip. And there was a cash flow or a funding gap of about A$50 million required in Clough's business. And we've made plans to meet that obligation and to support Clough with that $50 million in November of last year. And as we always do in our business on a quarterly basis, we do an in-depth analysis of all your projects. We refresh our forecasts to completion from a revenue point of view and from a cost point of view. And we assess the progress on the portfolio of projects.

At that stage, late September when that work was undertaken, it was realised that on two of the projects, Traveler in Houston in the USA, and the Waitsia project in Australia, that those two projects are going to require more cash to complete. And it's for several reasons. On the Traveler project in Houston, we had a very sizable COVID claim, which eventually we had to accept a very compromised settlement in order to get cash released onto the project. But that resulted in a significant loss to the group. But also, a compounding impact on the supply chain on that project, especially during the 2022 calendar year, indicated to us at the completion date, which is scheduled for June of this year, that this completion date will not be met. And if we were to overshoot that completion date, we would be in for damages. So, we had to accelerate on the project. And that acceleration cost was quite substantial, in the order of about $20 million.

A very similar situation occurred on the Waitsia project. So, the forecast at that stage indicated that both the Traveler project and the Waitsia project would be completed more or less at a break even position, where previously we've recognised margins of between 6% and 8% on those projects. So, what we had to do then in the current financial year, with the knowledge that those projects will complete on a break even position, we had to adjust our profit take on those projects. And essentially, the profits that were previously recognised had to be reversed in the current period. And together with that was the cash implications as well.

So, when that was realised early in October, as a group we were not able to meet that cash requirement within Clough. We were ready for the $50 million that we thought was the cash call in November. But with the latest news on Waitsia and Traveler, it became very clear to us that we would not be able to meet the cash requirement to fund Clough and to allow to trade through this position. And the difficulty of that was that at the time, the options that we considered ranged across many options, but one of them which appeared to be the most attractive at the time was to do a transaction with Webuild. And that was communicated to the market. And unfortunately, that transaction never closed.

And at the time that that transaction failed, we had no option but to put Clough into voluntary administration. So that was a decision taken by the board of Clough. And the holding company in Australia, Murray & Roberts Pty Ltd, also had to be put into voluntary administration at the time. And the reason for that is there was an intercompany loan between Murray & Roberts Pty Ltd, our holding company in Australia, and Clough. And with Clough going into voluntary administration, that intercompany loan would be called. And as a group didn't have the ability to actually meet that call, MRPL, the holding company, had to be put into voluntary administration at the same time.

So, that had a very devastating impact on the group. But I think the most tragic part of that is RUC, our mining company, which is also a subsidiary of MRPL, was then caught up in this administration. And when MRPL and Clough went into administration, we essentially lost control as a group of the entire substructure of companies that we had in Australia. So, as part of the administration process, and when the loss of control occurred, these companies had to be deconsolidated from the group. And you will see the impact of that just now. Now, the current status of that voluntary administration is that in February, the administrators running the Clough process called a second creditors meeting. And the entities within Clough that were in voluntary administration were then taken out of voluntary administration through a deed of company arrangement with Webuild. So, Webuild, the company that that initially was engaged in the acquisition of Clough in negotiation with Murray & Roberts, they then stepped in during the voluntary administration, and acquired the entities from the administration process that they were interested in.

So, those entities are no longer in voluntary administration. And that brought an end to that. There are other subsidiaries in Clough that were was not put into voluntary administration, but because it's part of the Clough group, and ultimately, of the MRPL group, we have also lost control of those entities. So, what the administrators are currently focused on now is the voluntary administration of Murray & Roberts Pty Ltd, or MRPL, our holding company in Australia. And they are realising the remaining assets within that company structure to meet to meet the creditor position within the Clough administration.

Now, the Clough administration did not have a big creditor deficit. But what happened, there were a substantial amount of project bonds that were provided onto projects that were secured. And the secured bond providers insisted that the security be back in cash. So, whether the bond has been called or not, it has to be cash backed. And that gave rise to quite a large deficit in Clough’s creditor trust. And because of that, all these other assets now need to be realised. And RUC is part of his assets, which is currently in the process of being sold off by the administrators.

So, we as Murray & Roberts are keen to regain ownership of RUC. We think that possibility of that happening is remote. And the reason for that is for us to retain ownership of RUC, we have to essentially acquire it out of the administration process. And the difficulty that we have, our lending banks in South Africa are not willing to support us with a transaction where the cash that is required would be utilised for the business in Australia. I think the banking groups in South Africa are hesitant to advance funds that eventually will end up in Australia. So, that is a bit of a problem. So, if we want to succeed in in regaining ownership of RUC, it can only happen on the strength of the asset itself, of RUC and its own cash generating capability. And I think that is making it a bit difficult for us, because we cannot cast the net that wider in terms of the arrangements that we have with our local banks in South Africa.

So, the bidding process is still ongoing. The offers needs to be submitted by the 17th of March. That's the date for binding offers to be submitted. I am not sure whether we will be able to do to put the funding package together that we believe will support a competitive offer. We are about halfway there to where we think we should be. But I think there is a gap at this stage which we are just finding very difficult to close. So, although we are giving it our best shot, I think the chances of us regaining ownership of RUC is probably a little bit on the low side.

So, the impact on Murray & Roberts is that when you lose control of entities, you need to deconsolidate from the group. So, this deconsolidation happened with effect the 5th of December. But most companies or assets moving down to discontinued operations meant that for the reporting period from the 1st of July, it reported under discontinued operations. Now, there's quite a substantial reduction in our equity as a consequence of this of about R3.5 billion. And Daniel will explain a little bit later on what the breakdown of that is, because part of it relates to the losses in Clough. As I said, the profits previously recognised on Waitsia and on Project Traveler had to be reversed in the current year, which gave rise to a trading loss in the current period. But also, it is deconsolidating the assets and liabilities of those companies, taking off the balance sheet, which had a large impact.

For reporting purposes then we report continuing operations. And with the businesses in Australia now being lost to the group, being part of discontinued operations, we had to restate our prior reporting period, or competitive reporting period results. And you will see that in the detail that will follow. So, operationally, the group is now proceeding with two business platforms, a mining platform that's slightly reduced. I think we've lost about a third of the platform in RUC, which operated in the APAC region. We are continuing with our business in South Africa, Murray & Roberts Cementation, which is servicing predominantly the South African market, but also into Sub-Sahara Africa. And then in the Americas, we've got Cementation Americas, which comprises of business in the US and the business in Canada. And in South Africa, we have the Power, Industrial & Water platform, which is focused on Sub-Saharan Africa, and predominantly in the energy and power sector. So, that is a group moving forward.

If we look at the results, as I said, financial year 2022, the first half of the year, we had to restate. And that is what you see in the grey column. And in the yellow column under FY23 H1 is the results for the six months up to December. So, revenue up from R4.2 billion to R5.9 billion, a nice movement on the revenue line. And earnings before interest and tax up from R18 to R80 million, also a nice movement. But as you can see from this, the group is now a lot smaller than what it was before. Attributable loss of R2.5 billion. And that includes the loss of R2.3 billion attributable to MRPL, Clough and RUC and the deconsolidation of these businesses.

Diluted continuing HEPS, a loss of 30 cents compared to a loss of 25 cents into prior period. And the order book at R16.1 billion, a little bit down to what it was last year but really nothing that we are concerned about. Our net debt position is R2 billion net debt compared to R0.9 billion net cash in December 2021. Now, at that time, Clough had R2.7 billion cash on its balance sheet. So, when you when you remove the R2.7 billion cash from the R0.9 billion that we had in December 2021, you get very close to the R2 billion which is the closing balance that we had at the end of December.

And your net asset value per share today is R5 per share and down from the R13 a year ago. So, as I said, it's a very difficult set of results to present and very unfortunate set of circumstances that we had to deal with over the last six months. And I'll be honest with you, we are still absorbing the impact of what has happened to the group. But we believe that the full impact has now been recognised in our accounts. If there's any residual impact from the administration in Australia, I think it will be insignificant. I think the impact has been fully recognised and reported in this set of results. Over to Mike. Thank you, Mike.

Mike da Costa
Thanks, Henry. I will just give you a quick update on the mining platform as it stands now. So, following the deconsolidation of our business in Australia, we're now delivering our services through the two regional companies that we have. So, the one is Cementation Americas based in Salt Lake City in Utah, in the USA. Their addressable market is basically North America, Canada, US, into South America from time to time. We do work in Chile and Peru through that business as well. Then based here in Johannesburg, most of you know we have Murray & Roberts Cementation. Their addressable market is really Sub-Saharan Africa.

Just a quick update on the market. I think as far as commodity prices are concerned, we've seen a fairly sustained period now of reasonably elevated commodity prices, and particularly when it comes to the commodities feeding into the energy transition and commodities feeding into food securities. I'm talking copper, nickel, lithium, PGMs, potash. Those commodities seem to be quite resilient. The gold price has been fairly resilient over the last 18 months. So, all of that has led to fairly good earnings for the mine operators. Most of them are sitting on fairly strong balance sheets. I think still a little bit tentative to invest, but we have started seeing investment coming through now. And we are certainly seeing many of the operators starting to push through, especially on brownfield investments, expanding of existing operations, replacing production capacity on existing mines. And we’re starting to see a couple of greenfield projects coming through now, as well.

So, all of that has been pretty good for our order book. We've got a fairly strong order book. That order book is supported by a really strong near order pipeline. And that in turn is supported by quite a good category one pipeline too. As you can see on the slide, our order book at the moment is standing at R14.1 billion. We have an equivalent number of near orders. Our near orders are also in the order of R14.2 billion at the moment. We expect those near orders, or the majority of that should convert in the next six to nine months. So, I think we'll see some order book growth over the next six months or so.

Having a fairly decent order book position has fed into a growth in revenue and into a growth in earnings for them for the platform for this half year when compared to the prior period. I think, in general, we've had a fairly strong performance for the mining part of the business for the first half of FY23. Just to show you that performance in numbers, if we look at the African business, as you can see, their revenues are pretty much equivalent for the period in 2022 and 2023. So, that's all good. We do have a bit of an issue in African business. They've been under some pressure in the first half of the year. The margins have been under pressure. And that's translated into some lower earnings for that business.

The main reasons for the margins coming under pressure is some underperformance on the on the Venetia project. We have encountered some operational challenges there which the team are working through, and I think we're fairly confident that they'll be making progress as far as that's concerned. And then we have a coal mining project at Arnot where that client has gone into business rescue. They don't have sufficient funding to fully fund the project. And because of that it's creating difficulties in us meeting the efficiencies and the output that we planned on that project. So, that is also feeding through and creating some margin pressure for the African business.

As far as the Americas is concerned, you can see from the numbers there that they've had a really strong recovery from the prior period into this current half year period. That's really on the back of a good order book that was built up over the last 18 months. And we've got some major projects that we've been able to bring into that order book. And those major projects are starting to implement and gain traction, and feed into revenue and earnings. So, in that business, again, a good recovery in margins. And I think we'll see further recovery in their margins, and that will feed into better and better earnings for that business. So, all of that translates into a pretty strong performance for the mining platform over this period, with strong growth in revenue compared to prior period and earnings. And you see the margin starting to recover as those earnings feed through. I think that's it from me. I will hand over to Steven. He can tell you about the Power, Industrial & Water platform.

Steve Harrison
Thanks Mike. This picture, I think for ten years I showed you guys pictures of boilers at Medupi and Kusile. So, I'm quite pleased I'm showing you some new pictures now of renewable energy projects. And I think these pictures will probably be around with us for probably ten years. And as you see, as I go through the couple of slides that I'm presenting, you'll see renewable energy is a huge opportunity for us and a huge focus area for us as a platform now, specifically the OptiPower business. We operate in Sub-Saharan Africa based in Johannesburg. We've got offices in Cape Town where the OptiPower Projects operate. That's quite convenient as well, because a lot of other renewable energy developers are based in the Western Cape. So, that's quite convenient that we've got those offices down there. So, very much power and energy focused on Sub-Saharan Africa, as Henry said.

In terms of the market conditions, again, for us renewable energy, and power transmission distribution projects are offering us all the best opportunities. As I say, we've got a R2 billion order book. And the bulk of that is in the renewable energy sector and some transmission projects. So, that's where we see our opportunity right now. We did record a reduced operating loss compared to this time last year. And my expectation is based on that order book and based on the fact that we are now executing on three wind farms and a main transmission substation, that that the loss position will improve to year end, and hopefully turn into a profit and a contribution to the group and in the following year. We do have a constrained transmission network, as you guys all know.

It was really disappointing in the round six renewables. No wind farms were awarded. And the simple reason no wind farms were rewarded is because we can't evacuate the power in the areas where those bidders have put their development into the REIPPP reprogram, so that was really disappointing. So, we know that transmission will have to be a huge focus area for South Africa and for Eskom. I'd like to say that that will be happening in the near term or short term. My feeling is it's not going to happen until the medium term. We've currently got projects for Eskom, 400 KV lines under adjudication. But there is there a more to come as we realise.

So, as I said, in the lead up to the year end, we've been working on two wind farms NTS and another wind farm for another developer. For probably onwards for a year we've had LNTP [?] on that. So, we ordered some key items. We've done a lot of engineering. We secured those projects. Luckily for us, they were the first projects to close. It was EDS projects. Thy closed in November. We got notice to proceed towards late November. And then the Wolf project for Red Rocket closed financially on Friday. So, that's really good news for us. So, that's a good, solid order book that we now need to execute. You'll see at the bottom of that there's a company called Wade

Walker Solar. It's quite a small business. It does CNI PV, so on industrial rooftops and the like. So, it's not a huge business for us, but it can make a contribution. And we think it will grow during the course of this year and into next year as well. So, we're looking forward to that.

On the Murray & Roberts Water side, we've completed the V&A project. That's passed its performance test, the Organica project, which again, I've spoken to you guys about many times. That's been handed over to operations. We're going to do a ten year O&M on that. But our water business has really been downscaled. And it's not a material impact on my overhead. It's manageable as it is. What we will do is we will probably pursue Organica wastewater treatment type opportunities, and then we'll scale up as we need to. We've still got the licence for that technology. Near orders, R200 million. That's the second phase of the Kuruson [?] NTS that we're doing for EDS. So, we're expecting to secure that order any day now. And then we will order a second 500 MVA transformer. They are expanding that NTS in that in that [unclear] cluster, so that they'd be able to evacuate the power for the work that they're going to be doing with Anglo American as part of Anglo's renewable programme.

The numbers, we split the numbers between power and industrial, water, and solar transmission and distribution. You can see power and industrial, low revenue numbers compared to the low revenue numbers this time last year. They are still low revenue numbers. They only work really that the power and industrial team have got is maintenance work for Eskom, which is going along quite nicely. But that work will run out in September this year. It's up at Medupi. Unless we can renew that contract. So, we'll be looking to do that, but not a major contribution to the platform. I'm really pleased to be able to say that we've reached the full and final settlement with Mitsubishi Hitachi on the power programme, relating to our contracts at Medupi and Kusile. We've got some remaining work that we need to execute. That's been capped R80 million. It is reimbursable. And we need to complete that work by the 30th of November this year. And there is a big focus from the MRP team to be able to be able to do that. Order book is low. As I said, it reflects the work that we're doing at Medupi.

Water, as I've mentioned, it's not making a major contribution to the platform at the moment. But it is not a huge burden. In fact, it's a very small burden with respect to my overhead. So, we will continue with the operation through the operations phase of the Organica plant. And then we'll see where opportunities arise for us on the Organica technology, and we will ramp up as and when required in that regard. So, the standout performer and the standout prospects sit on the solar transmission and distribution, which is ostensibly the OptiPower business. Again, I think I was standing here at year end, and I was telling you guys that the projects are coming, the projects are coming. They came probably six months later than we thought they were going to come. But they are here now. So, that gives me confidence that we can deliver our numbers and improve on a year-end number and carry a good order book into the following year.

So, R1.9 billion worth of work in that project. And as I said that work is three wind farms, it's the NTS. I think the important thing as well is, which was on the previous slide, we've got about R9 billion worth of cat one prospects. So, those cat one prospects for us are we've either put a bid in or we're busy putting the bid together, it's under adjudication. That is meaningful for us. And again, the bulk of that cat one opportunity sits in renewables with some transmission work as well. The other is basically our overhead. I think I've been a little bit burdened with some legal costs over the last couple of years. And obviously closing out the Medupi and Kusile contracts with Mitsubishi Hitachi enables me not to have to pay some of those legal costs specifically in that area. So, we have still got a couple of other issues that we are sorting out, but we expect that overhead to normalise going into the into the new financial year, which I'm really pleased about.

That translated to a R37 million loss at a platform level. Again, for me disappointing, but I really feel that we're in a position now with the with the order book that we have, and the work that we're executing, to improve that towards year end, and then make a contribution to the group into the new financial year and obviously into the future. As I said at the start when I showed you that picture, I think me and whoever the next CEO is after I retire will be proudly showing you pictures of renewables plants into the future. That's me, Henry. Daniel, the numbers.

Daniel Grobler

Thank you, Steve. Maybe just going back one slide to Steve's presentation. You talked about settlement of the power programme. So, what you'll see in our financial statements is a reduction in potential liabilities going forward. And so, the potential liabilities going forward was about R5.3 billion. That's now been reduced to R2.3 billion. And it's contingent liabilities. And the main reason for that is the settlement of the power programme. So, I don't think we should take it lightly what the impact of the settlement of the power programme meant for us as a group and as a company, in that the contingent liabilities have been settled and reduced so significantly, for the group. So, I know that was one of the questions that we were asked.

If I move on to the Bombela investment, if we look at the Bombela investment and how we normally account for that, we do a fair value adjustment, we take dividends going forward, we discount them to a rate. And as you come closer to the end of the concession, you get a bigger value that you've got to recognise. So, in the prior year, we had R102 million fair value adjustment. Because we are in the process of selling the Bombela Concession Company, we had a fixed price, which is book value, in the accounts. And in the share purchase agreement, we said that's going to be the value that we're going to sell it. So, the fair value adjustment of R17 million is a small adjustment, just getting it to book value to make sure that there's no profit or loss on disposal of our investment in Bombela Concession Company. We did mention before that they are administrative CPs. So, a number of the big CPs have been fulfilled. And we expect to close that and to receive proceeds on the disposal by the end of March, maybe early April.

If we get to discontinued operations, so we broke it up into the Australian operations, the Middle East operations and others. So, before going to the Australian operations, maybe let me talk on a broader scale how we account for entities lost to the group. So, on the 5th of December, the Australian entities went into voluntary administration. That means that we lost control of those entities. From an accounting point of view, what that means is we account for the loss or profit incurred in those entities from the 1st of July up until the 5th of December. That's point one. Point two, we've got to calculate what were the assets, what were the liabilities of those entities. We've got to take them off the books. And obviously your assets exceeds your liabilities, so that creates a loss in deconsolidation of the entities. And because these are foreign entities, there's a foreign currency translation reserve impact on the books.

Now, in your shareholders equity, there's a number of line items. So, your assets exceed liabilities, and the difference is your shareholders equity. And part of that is your results from the income statement. Part of that is your share premium. Part of that you share capital. And another part is your FCTR reserve that that we disclose. I'll get to that at a later stage. So, if we look at the MRPL, Clough and RUC deconsolidation, the operating loss in Clough up until the 5th of December was R 1.3 billion. As Henry mentioned, that related to the Project Traveler as well as the Waitsia project. And there was operating profit in our RUC entity of R130 million. So, let's call it a net R1.2 billion loss in terms of trading results.

Then you get up until the 5th of December. Now you have to deconsolidate, remove the assets, remove the liabilities of these entities. And the net difference and the net loss we made on that was a R2.3 billion loss on the deconsolidation of the assets and liabilities off the balance sheet. So, the R1.2 billion plus the R2.3 billion means that the value of the group, the shareholders equity, or the net asset value of the group decreased by that amount, which is R3.5 billion. And that's the loss to the group as part of this transaction. Now, the last element that I mentioned was foreign currency translation reserves, which is the FCTR. Now, because those are two line items included in your shareholders equity, it washes through the income statement as a profit, but it reduces your FCTR reserve in your shareholders equity. So, in terms of the NAV impact on the company, it has got a zero impact.

If we look at the Middle East, in the Middle East we still have number of contingent liabilities. And those are liabilities that we are in legal processes that we've got to incur legal costs to make sure that we don't actually get the liability at the end of the process. Those legal costs, plus we've got four employees still in employment, came to R10 million for the period. In the other column, we've got two items. One is Genrec, which is a company that we sold. And we are currently busy remediating some of the works on the Kusile contract. In the first six months that costs us about R12 million. Now, as part of Steve's settlement agreement on the power programme, they said that between now and the end of November, it will be on a cost plus basis that they remediate us or repay us our costs in remediating the defects on the project. And that will be up until a cap of R80 million. So, about R12 million of that is not expected to recur in the next six months.

And we had some costs in the Bombela Civils Joint Venture, which is the company that actually built the Gautrain. Now, there are minor latent defects that we are incurring. You know, if something breaks on a station here or a station there, that we have to incur costs to remediate, we've got a small construction crew. And that cost was also about R12 million. If I go on to the income statement, when you deconsolidate a company based on loss of control, you've got to restate the prior number. So, revenue in the current year and revenue versus the prior is after deconsolidating and restating the prior numbers. So, we can see an increase in revenue from R4.2 billion to R5.9 billion. That's mainly related, as Mike pointed out, to the Cementation Americas. And that translates through into EBIT.

What we see in the interest expense line item is an increase of R54 million. Now, in South Africa, the SA debt in South Africa increase a bit. But more importantly, the interest rate in South Africa increased more. And the combined effect of those two elements was the R54 million increase in the interest expense. Now, our taxation if you translate taxation into effective tax rate, is a high amount. And the example I used before was, let's say in the mining platform, being two separate legal entities, Africa and the Americas, generates R200 million in profit. If you apply a 30% tax rate to that, it gives you a R60 million tax to be paid on that profit. Now, those are genuine taxes to be repaid on those profits. But now we've got corporate costs in South African. In the current year, it's R180 million on an annual basis or R90 million in half year. You've got to interest expense that you've got to deduct as well. So, by taking the profit of those two entities and deducting the SA expenses that do not generate a deferred tax asset or a tax benefit, it actually moves up your effective tax rate. And it's a structural problem which we are working on. And going further down the slide, we talked about the discontinued operations of R2.4 billion.

If I go onto the balance sheet now, when you deconsolidate, your December numbers versus June numbers are not comparable because you don't restate your June 2022 numbers. So, whenever you see a reduction, the main reason for the reduction is that the RUC as well as the Clough activities have been deconsolidated and removed. We can see cash as at the end of December dropped from R2.2 billion to R682 million. And we can see the shareholders equity dropped by the R3.5 billion, which was a trading loss of R1.3 billion, and the NAV value of the other two entities of R2.2 billion that reduce your shareholders equity value.

I just want to spend two minutes on this slide. So, this is our debt analysis. And as per usual, we classify our debt between corporate debt, self-servicing and IFRS 16. Now, corporate debt is classified as debt that you've got to use profits generated by the company to service that debt and to repay the debt in future. Self-servicing debt is project specific debt that gets paid in the revenue line of those projects. And then you've got IFRS 16, which is your normal operating leases on a building, and similar items. Now, once we've received the proceeds of the BCC transaction, on the right hand side of the slide, you'll see the pro forma. So, you will see that total debt reduces from R2.648 billion to R1.391 billion. So, it's a significant reduction in debt. If you look at the corporate debt, it goes from R1.9 billion to R800 million. So, if you translate that down to the bottom of the slide, your gearing ratio just for the corporate debt reduces from 86% to 36%.

Now, we are working off a very low shareholders equity base of R2.2 billion. So, 36% is not terrible. It can be improved on. And Henry will touch on some of the initiatives in play to try and reduce that. But post the receipt of the BCC proceeds, the corporate debt gearing reduced to 36%. Gearing after corporate, self-servicing is 57%. I just want to make a point. And that's another question that came out. If your self-servicing debt or your asset based finance goes up or down, how does it influence the group? In my view doesn't. So, if you win new projects, and your self-servicing debt means that you've got to go and buy new machines of another R500 million, it means that you've secured a large contract, and that contract will service that debt going forward. So, the gearing ratio to me of incurring additional self-servicing debt isn't that important versus the gearing ratio to the corporate debt. I think that's it.

Henry Laas
Thank you, Daniel. Just a few more slides towards the end of this presentation. The order book we have touched on a bit earlier, R16 billion. It is down on what it was in December 2021. But we are not concerned about that. The order book is not something that you replenish on a daily basis. It is a bit lumpy. When you secure new work, it comes in and you see a big jump in that value. But there's two things that I would like to point out on the slide. The first is the increase in the order book for the PIW platform. That is a business that hasn't had an order book for many years now. And that is the first time that we see that the renewable energy sector is now a new opportunity for this business. And that R2 billion order book is essentially all in the renewable energy space.

The second point I would like to emphasise is the type of commercial arrangements that we have in these two business platforms. In the mining order book, that R14 billion, there are no six fixed price contracts in that order book. It is very rare in the mining sector that you are invited by a client to tender on a project on a fixed price basis. It happens by rare exception. And if it does happen, it is for very small and specific defined scopes of work. So, it's not common in the mining industry. So, the commercial arrangement that we enter into or not onerous on the contractors. I think it is a fair commercial arrangement. And the risks that we carry in our business is really our ability to meet the productivity targets that we have assumed in our tender, because on a unit rate basis, it means you get paid a certain amount of money for a unit of work. And for you to complete that unit of work below that unit rate, it means you have to achieve a certain minimum level of productivity.

So, when you have an issue, an operational challenge, as Mike has mentioned at Venetia, operationally we are but under the whip. We have not really achieved the productivities that we were aiming for many reasons. The margin comes down. So that's a type of risk that we are managing in that business. In the renewable energy sector in South Africa, you cannot secure one Rand of work, which is not on a fixed price basis. So, all contracts in the renewable energy sector in South Africa are on a fixed price basis. So, you cannot participate in that opportunity unless you do it on a fixed price basis. So, that's the only commercial model which the project developers invite you to tender on.

Now, from a risk perspective, I think we must also emphasise that these projects are 18 months duration, 18 to 24 months. So, when you have a fixed price contract that runs over multiple years, like we had in the ERI platform, five year durations on the project, you are exposed to external risks for an extended period of time that can indicate impact your business. If you have a fixed price contract that runs for 18 months, I think it is it is a more manageable risk. Although a fixed price contract is still an onerous commercial term as far as the contractor is concerned because the contractor carries most of the risk in a fixed price contract. And it is not a model that we that we would like to tender under, but you don't have the option. So, in some market sectors, that is the model that you need to work on if you want to participate in that sector.

So, just those three points again, just to summarise. Mining is really rates type contracts or reimbursable type contracts, not fixed price. It is different in the renewable energy sector in our PIW platform, the market that we are now focusing on in renewable energy. And then the pleasing fact that the PIW platform for the first time in many years, managed to get some order book together. If you look at the split of the order book, if we start off with mining, of that order book of R14.1 billion, R4 billion of that will be executed in the remainder of the current year, R4.4 billion in 2024, and R5.7 billion after 2024. So, from that you can see the mining contracts are long term contracts. So, what we currently have in the order book continues to beyond 2024. So, it is long term, long duration contracts.

Just contrast that with what you see for PIW. So, there we have a R2 billion order book. And that work really was secured towards the end of the reporting period, roundabout in November, the end December 2022. And if you look at the order book distribution, of that R2 billion, R800 million will be delivered in the second half of this year, and R1.2 billion in 2024. There's nothing beyond that. So, that order book only has about an 18 month horizon, that R2 billion. So, it's a big contrast between the two platforms and the scale of the projects and the duration of the projects that we're doing.

So, the secured order book, if you look at these numbers that we have on the slide, we believe that our revenue for the current year will be circa R12 billion, and we are confident based on the pipeline and the near orders that we should be able to report revenue growth into financial year 2024. The definition that we use for near orders is work that we essentially have secured but which the client hasn't awarded to us yet, or it is work that we have secured that is still subject to entering into commercial arrangements. So, of that R14.2 billion near orders in mining, R7 billion of that relates to the Venetia contract. So, we know we're going to do the work. But every 12 months, 18 months, the client awards another slice of that contract value. So, it's not all awarded in one go. It gets rewarded over time as the project progresses. And I said to Mike earlier on… He made a comment that that R14.2 billion, the bulk of it over the next six to nine months. And we said we only heard the first part. We didn't hear the nine months. So, all in the first six months please. But all of it is not under our control. But I think it is a healthy pipeline.

I think what it's also worth noting, especially for the PIW platform, is that R9 billion in category one. Category one we define as projects that we have submitted tenders for which are under adjudication, or tenders which we are busy preparing, tenders which are in preparation. And what category one really means, it is an indication of the status of a specific project. When will that project come to market? So, projects that we are tendering on under category one, those projects have advanced to the stage that the client wants to start working on the project, start to develop the project, and is calling for tenders that adjudication can happen. In category two, those are projects that we are providing budgets for doing some work on a feasibility study, which means it's still further out in the pipeline. It is not as near term as what a category one opportunity would be. In category three would be opportunities that we have identified that we are targeting in the market. But it hasn't advanced to the stage that the client is working on a feasibility study or inviting budgets. So, it's not in category two. It's in category three for that reason.

We need to talk to another matter which is very important for all engineering and contracting companies. And that is our safety performance. On the right hand side where you see the bar graphs, you will note that we had the fatal incident in October of this year. Very sadly, one of our colleagues in Australia working on a project for RUC was fatally injured in an incident. But unfortunately, we cannot share with you much more at this stage because the investigation is ongoing. And since the administration process which commenced on the 5th of December, we've got no access to management, we've got access to information. And that is just the way in which administration processes work. You cannot access the business to get any information, not even as far as the fatal incident is concerned. Our lost time injury frequency rate at 0.49 is a very good rate. And we are very pleased with that result, which is an indication of the hard work that our teams are doing on site. And as you know, the type of work that we do many a time is in high risk environments. And we aspire to deliver our projects with zero harm to people, communities, and the environment.

So, just a few points, presentation takeaways. I think the first point to recognise is, yes, what happened to us in the past six months is quite devastating. So, the group now is much smaller following the loss of the businesses in Australia. And given our smaller footprint as a business, there are fewer cash generating units. From a debt perspective, we are challenged. I think the debt position, as Daniel has explained, although the debt to equity ratio for corporate debt is down to 36%, the debt itself is about R790 million, and that is the figure that we need to work down. The second point is just to mention that we are considering further options to de-lever the balance sheet. Now, when a company finds itself in a difficult liquidity position, the first thing that you do you is sell non-core assets, which we have initiated through the sale of BCC. It was a very good investment, but an investment that would have run its course by March/April 2026 at the end of the concession period. So, to us it was the obvious asset to sell. And that will realise the R1.3 billion cash, sometime towards the end of March, maybe early April. And it will enable us to reduce the debt down to the R790 million.

We don't have any other non-core assets or non-strategic assets that we could sell. So, what we need to look at, we need to look at the ways in which we can reduce our working capital, get cash released through better working capital management. There are quite a few long outstanding claims that we need to finally get over the line and hopefully settle. That could bring in a couple of hundreds of millions of Rands. So, that would be good for us. And the cash flows that we have done to date – and currently, we run cash flow models up to June 2026 – it indicates that we are generating sufficient cash to meet all our obligations, and we can continue and trade through this. But we would like to reduce our debt further. And as I said, we don't have any further assets to sell. So, it will have to come through being more efficient as a business and reducing our working capital. And in this regard, I must say, we are working very closely with our banking group on that. And we will find a way forward and come through this difficult period.

From a group structure point of view, the two platforms remaining, I think Mike has explained that well, and Steve has also. We understand what the business currently is going forward. And then the corporate cost, we have reduced corporate cost already by R40 million. That's per annum. We won't see the benefits really in the current period. But you'll see the full R40 million benefit in the next financial year. So, cost saving initiatives are also an important part of the way in which we are focusing on de-levering the balance sheet. So, the Mining platform is a business has been performing very well over a very long period of time for Murray & Roberts. It is very sad that we've lost RUC. We are trying really our utmost to regain ownership of that business. But as I said, the probability of us being successful is low. But we're going to give it our best shot. And if all the stars line up, we might have a good outcome. But we will have certainty about that towards the end of March, early April.

The PIW platform, the first time in a very long time that you have got visibility of the market sector that is presenting the opportunity. And we haven't had that for a long time in South Africa. So, that's a very good prospect for the PIW platform. And then finally, the order book at R16 billion. It is a good order book considering the reduced scale or size of the business. And the near orders of R14.4 billion is also a good figure. And the majority of that sits in your platform, Mike. I think it's R14.2 billion of the R14.4 billion. So, ladies and gentlemen, that is the end of the presentation. We are going to open it up for questions. And please feel free. Ed is going to manage the Q&A session for us. I think there's questions on the web, and there will be in the room. But let's hand over to you, Ed.

Ed Jardim
Thank you very much, Henry. Perhaps let's start with questions in the room. Any questions for Henry, Daniel, Mike or Steve?

Henry Laas
Yes, there at the back.

Ed Jardim
I'll bring a microphone to you now.

Ndumiso
Good afternoon. My name is Ndumiso. So, my question is directed towards Steve's business, particularly the renewable business. I forget the name. But the types of renewable projects that you're doing, is your model more on the FSC side, or you also do design, build, finance, operate and manage?

Steve Harrison
So, not we're not doing any design, build finance at the moment. We probably look at that at a smaller scale with the Wade Walker Solar business. But in terms of the type of work we're doing at the minute, the developers have two models. The wind model is the developer appoints a turbine supplier, and then he appoints a balance of plant contractor. That balance of plant contractor then does all the necessary works from those wind turbines. So, that's where we're positioned in the wind sector of renewables. We do the electrical balance of plants with a civil partner. So, we do all the cabling, we do all the grid works, we do all the substations on the IPP, we do the transmission line that ties into Eskom.

So, that's the type of work that we do in. And that's lump sum work, as Henry said. But in that space, all the lump sum work, the majority of that work we're not relying on a supply chain outside of the country. It's all internal to South Africa. We can get all of that equipment. And the programme actually demands that we get most of that equipment from South Africa. The only thing that we didn't in the work that we're currently doing is that 500 MVA transformer I spoke about. And we've managed that with our client. We managed the forex risk with our client, and we managed the pricing up to the point of the validity when they appointed us. So, that was well managed.

In our PV model, which we're currently bidding, it can either be a sub EPC. But we're also looking at being the main EPC with an international partner. So, we've got international partners who we are engaging with. What do those international partners bring for us? They bring the track record, they bring the experience, they bring the detailed engineering, and the performance, and the yields. And they also bring the supply chain. So, these are international companies who have obviously muscle in terms of the supply chain. And what is the potential risk in the supply chain? That risk is modules, its inverters and its trackers. So, our international partners are well versed in that, and they are well tuned in to the supply chain. And then we do the balance of plant work similarly as we do on a wind farm. We pull the cables. We do the substation. We do the transmission line. We do the IPP sub and the Eskom sub as well. So, there are two different models. But more often than not, the client, the developer demands that the PV is an EPC wrap. The model there is do it with a large, reputable international partner. They do what they do well, and we do what we do well, and we manage that risk.

Rowan Goeller
Thank you. It's Rowan Goeller from Chronux Research. Steve, another question to you. The transmission lines across country, which we hope is going to be coming out to tender sometime, would you be interested in that given that it's going to be extensive work, large areas, going to multiple local communities, etc., which in the construction world throws up a whole bunch of red flags. But your business is perfectly positioned to take on work like that. Is it an opportunity?

Steve Harrison
Yeah, we definitely see that as an opportunity, but with eyes wide open to those risks. So, we're currently doing a transmission line in KZN where we've got exactly those issues, Rowan. And we're dealing with those issues. We've got community issues. We've had security issues on that line. And we are dealing with those. But to me, it's vitally important that from a contractual point of view, when we enter into those contracts with Eskom, because those contracts are with Eskom, we know who's doing what and who's responsible for what. They have to secure that servitude. They have to make sure that the landowners who are on that servitude have been compensated and removed from that servitude. And then we have to manage the rest. And we have to manage those community issues as well. On all of these projects we've normally got a senior HR Employee Relations Community Manager. And that manager will have two or three Community Liaison Officers reporting to them. So, it's in the fabric of what we do. We understand it. We think we can manage that risk, but it's not without its challenges. And issues do arise, and we have to deal with those issues. But it's too big a market for us to say, no, we're not going to take that risk. OptiPower have been building transmission lines for 20 years. Those issues are becoming a little bit more prevalent now. But we can we feel we can deal with it. And Eskom have got to build 4,000 kilometres of 400 kV line. We can do that work. We're a certified vendor for Eskom, OptiPower is. And we want to do that work for sure, with eyes wide open.

Rowan Goeller
Thank you. A question for Daniel. Can you just run us through the term loan that was renegotiated in November? Just the profile and the tenure of the term loans, and when it's due, if the proceeds of BCC will pay that off, and then the outlook on [unclear].

Daniel Grobler
So, the term loan total is R1.35 billion. Of the BCC proceeds we're going to utilise R1 billion to reduce that. There's a further R50 million due in September 2023. And we've negotiated with the banks that the reminder R300 million stub is extended to August 2024. So, it's been renegotiated. But for me the biggest item we need to renegotiate covenants on the term loan, because when we actually agreed the terms of those loans, it was a completely different landscape to where we are now. Based on the cash flow forecast, we are confident that we can meet our obligations as they fall due. But we've got to sit down with our lenders before August 2024 to see what we do. Do we fully repay, do we renegotiate terms, or how to go about that?

Mark Ter Mors
Mark Ter Mors of SBG Securities. A question relating to the cash flows. It looked like in the first half, there was quite substantial working capital absorption by the core businesses. What do you expect that picture to be for the second half, particularly because in Steve business a couple of large projects are starting. And it looks like in mining in South Africa, there's a number of challenges in some of the projects. A second question would be the exit risk from the Middle East?

Henry Laas
I'll give you my answer while Daniel thinks about the correct answer. So, the work that Steve is doing, those projects all will come with nice advance payments. And the cash flow profile on those projects, it's always cash

positive from the start to the end. So, that's not going to impose any working capital demands on the group. What we saw in the first half of this year, working capital went out in the mining business in the Americas. You can see the growth in revenue that Mike referred you to. And those projects tend to turn cash positive only after about four to six months. So, there is working capital outflow associated with that. So, that would be my guess. Daniel, what is the right answer?

Daniel Grobler
So, I'm going to supplement your guess. So, in the ERI platform, which is Clough, obviously in the first five months, there was a working capital outflow due to losses and monies being repaid. That was a significant number. But as I said before, the PIW platform bid on a cash neutral to positive basis. So, we don't expect working capital outflow. In Cementation Africa, similarly, on a cash neutral to cash positive outflow. And then it's only in Cementation Americas. And we have seen that in the first six months, where there was a small amount. It's not a large amount, but a working capital outflow. But that will reverse in the next six months, turning into a working capital positive inflow.

Mark Ter Mors
The second question relates to any further exit.

Henry Laas
Yeah, I think as far as the Middle East is concerned, the current status is that the entities that we have in Dubai and in Abu Dhabi, both those entities are entities which are held for sale. Now, we entered into a sale agreement maybe two years ago already. But we haven't been able to transfer the shares and exit the Middle East for the simple reason that in Abu Dhabi, there's an attachment order on our trading licence. And because of that attachment order on the trading licence, we cannot transfer the shares. The reason the attachment order is on the trading licence is a consequence of the Mafraq hospital project, where you will recall our bonds were called on that project by Mashreq Bank. And it is Mashreq Bank that's got the attachment order on the trading licence. So, we believe that those bonds were called unlawfully, and there was no reason for those bonds to be called.

That position was upheld by an earlier Court of First Instance. It has later been reversed by a Court of Cassation. But even Mashreq Bank in the early days were fighting tooth and nail not to pay out those bonds that were called, because they were of the view that the bonds were called unlawfully. But under the pressure of the central bank, they were forced to pay it out. So, that is the risk that we have in the Middle East. And if you have to quantify that, our share of the bonds that were called is 150 million dirhams. If you convert it to Rands, it is about R650 million. So, those bonds were called. We've got a legal opinion that the chances of Mashreq being successful in recovering those funds from Murray & Robert is remote. And that is a contingent liability that we carry there. Apart from that there is no other residual risk in the Middle East. It is just that bond which has been called. I just want to check with the auditors. Did I answer that correctly? Thank you. But that is the extent of the risk.

Ed Jardim
Henry, perhaps if we can move to questions on the webcast. Steve, for a couple of presentations, you didn't get questions. Now all of the questions are coming your way. Is PIW considering or shifting into private renewable energy projects? What has PIW's experience been with the private renewable energy market? Perhaps comment on the strategy for PIW.

Steve Harrison

Sure. Obviously, there's two elements to renewables. There's the REIPPP programme. Currently the projects that we have are in the REIPPP programme. But there's been a massive, massive increase in activity in the private sector. And we have been bidding in to specifically EDF and Anglo's opportunities in the private sector. So, yea, we haven't secured anything the private sector yet. But I'm optimistic that we can secure it. And that pipeline of work is huge in the private sector as well. And the interesting thing is in the private sector, they seem to be a bit nimbler and a bit more streamlined in their ability to get their cost estimates from Eskom.

I think one of the problems in round six with the wind guys was that they can't finalise their grid requirements until they've got a letter as a preferred bidder from the IPP office. And there's a gap between those things. Whereas with the private sector, EDS can go to Eskom, and they've got a power purchase agreement already signed with Anglo American. So, I think that space is going to accelerate dramatically. And we're definitely tuned into that in terms of solar and wind because you're going to get solar and wind. There's going to be two sections to it. One section will be on mine or adjacent to mine. And the other will be wheeled opportunities where they'll develop a site in the Eastern Cape or Northern Cape and wheel it into the grid for the benefit of a private user. So, to answer the question simply, yes, there is opportunity in the private sector, and we're engaged in it.

Ed Jardim
Thanks, Steve. A follow up. Margins on solar and transmission and distribution in your order book and that yet to come, what kind of margins do you see?

Steve Harrison
The margins in wind for us are better than in solar. Solar margins are probably going to be somewhere around about 10.5% to 11.5% percent. And maybe 12% if we're lucky, and people start to get really busy. On the wind side, our margins are better in that regard by a couple of percentage points. So yeah, that's where we are at. But the interesting thing with solar is, even though the margins are tighter, half of the project is procurement. So, Henry spoke about the duration of the projects. We have done cash flows on some of the projects we're bidding on at the moment. And we are invoicing and generating revenue on about 50% of the project in the first 10 months or so. So, it's a different model. But yeah, it's in that sort of region, Ed.

Ed Jardim
Thank you very much, Steve. Mike, a question for you, please. Can you please elaborate on the challenges at Venetia and Arnot? And what do you expect going forward? Do the current challenges at Venetia make you a little less excited about the R7 billion remaining in near orders?

Mike da Costa
Let me just cover off Venetia quickly. Venetia is a is a huge project. And it's grown significantly over the time that we've been there. And I suppose we've been largely responsible for that growth. But the project is also at the stage now where they are pretty much ready to go into production. A lot of pressure to get the mine into production. So, a lot of contractors working on the mine at the moment. Lots of interaction, lots of inter-dependencies. And it's really a very complex environment. So, that does create the challenges. It creates delays for us and for some of the other guys. So, that is one of the aspects that we struggle with. And then there's some operational issues that are certainly within our control, which do impact us from time to time. So, I think in short, it's really the complex environment and stages of the project that's really impacting or creating some of these issues for us.

In terms of the remaining R7 billion, no, I'm not less excited about having that R7 billion in order book. I'm sure we will deliver that work, and we'll deliver it at a good margin. So, I think something to be understood is there's a fair chunk of that remaining order book that's construction related. It's not a mining related. So, we do have probably the majority of the construction work on that project. And there we are really successful, and it's fairly decent margin work. So, I think Venetia is challenging, but we are certainly working pretty hard with De Beers to get through those challenges. And certainly, no less excited about that R7 billion than what we've delivered so far.

Henry Laas
Mike, maybe if I could, before you move on to Arnot, give some practical examples maybe. Venetia, it's a huge mine, as Mike has said. It's a fully mechanised operation. The mechanised skills in South Africa are really limited. So, from a skills point of view, it is quite a challenge to mobilise with the required level of skill and experience that you want to see a project of that nature. And I think as far as the OEMs are concerned, from a supply point of view, they're also under pressure. The availability of spare parts, supplying that into the project, the OEMs are under pressure to keep up with the services that they need to provide to the industry.

Mike da Costa
All of that does contribute. As far as Arnot is concerned, we've been contracted to do the coal mining at Arnot. It's been a difficult project. So, we established ourselves, got going, but the client hasn't been able to raise the full funding for the project. And from the beginning of the project, they struggled to raise sufficient funding. So, the plan was always to have two shafts in operation. The client only ever had enough funding to get the one shaft in operation. And we've been working with them to see how to get the second shaft constructed and going.

But round about August last year, the funding pressures really built up there. The funding constraints just escalated, and they ended up going into business rescue in August. Since August, we've been working together with the business rescue practitioner trying to advance that project. And it is a bit of a difficult situation for us, to be honest. And we need to probably make a decision on the way forward there, whether we are in a position to continue on that contract or not. So, we should be making a decision in the not too distant future. But at this stage, we continue to work with the business risk rescue practitioner and see if there is some way to deliver that project.

Ed Jardim
Thank you, Mike. Daniel, a question for you please. What cost cutting have you implemented thus far and what further measures are you exploring. Given the reduction in size of the group, corporate costs need to reduce by more than R40 million per annum, don't you think?

Daniel Grobler
So, the corporate costs are sitting at R180 million. That's been reduced by R40 million through a number of measures. One of the elements that we reduced was the running club that was run by Murray & Roberts. There's been a number of overhead reviews and staff reviews that we've conducted. We have over the past six months renegotiated the terms on our lease agreement, which has reduced our property rental cost significantly. But really something that's under constant review. So, we continuously on a regular basis sit down and review what costs do we really need? As an example, on the board level, are there committees that we can combine on a board level? Are there elements in our group that we can combine certain functions? So, it's an ongoing exercise. But we have recognised the need to reduce costs. As we said, we have reduced by R40 million. The aim is needs to continue removing.

Henry Laas
There is a large element of that cost which is fixed. The flexibility around reducing cost, once the first R40 million chunk is out, it becomes more and more difficult to make meaningful reductions.

Ed Jardim
Thank you, Daniel. Thank you, Henry. A two-pronged question on RUC. Can you comment on what it would cost the group if you wanted to buy RUC back? And the second part of that question is, there's been some press in Australia recently with regards to your efforts to set up a different business to RUC in Australia, should you not be successful in acquiring RUC.

Henry Laas
Obviously, I cannot comment on what we believes a competitive offer would be for RUC, because we are in a competitive process. So, we can't give you an indication of what that value would be. Other than to say, if we were to be successful acquiring RUC, the funding arrangement will be such that it is ring-fenced around RUC, and there would be no recourse to the rest of the group. And that in itself is putting some constraints on our ability to get to a competitive offer that we believe would be sufficient to retain that business for the group. And the second part of the question?

Ed Jardim
There has been in the press in Australia.

Henry Laas
Yes. So, we've established a business in Australia called Cementation APAC. It was registered early this year, or was it late last year? I can't remember now. Early this year, it was registered. And the idea would be in the event that we are not able to retain RUC for the group, that we would like to have a start-up business. The difficulty with that is if you want to start a business from scratch, it will require working capital. So, it's not something that we will be able to do in the immediate future. We will have to get to a point that we are able to fund working capital that is necessary for that. But Mike is now based in Perth. He and his family relocated there earlier this year. Last year. Mike went there almost a year ago. His family joined him earlier this year. So, Mike is there. And if we were to get moving in the Cementation APAC, then Mike will be the key driver to get business off the ground.

Some of the some of the works, potential opportunities that you have in that market might not require working capital. It could be something that you could maybe get off the ground on the basis that it is fully funded by the client. So, those are the opportunities that Mike would have to explore and see how we can get a foot into that market again on a basis that doesn't have a huge working capital demand on the group. But I think that's going to be our challenge. If there are working capital demands, how do we meet that if you want to grow a business from scratch?

Bed Jardim
Two final questions, Henry. Also, two parts. How will the current balance sheet affect the ability of the mining business to maintain its performance bonding capacity. Even post Bombela, you referred to evaluating options to de-lever the balance sheet. Can you expand on these options? Second part of the question, but linked, it seems like a rights issue might be an option to raise capital. Will your key shareholders, specifically ATON, support this?

Henry Laas
I think as far as the mining business is concerned, we still have the support of our banks and the support of our bonding providers. And some of them are in the room today. So, thank you for your support. You hear from this question we rely on your ongoing support. So, thank you for that. But yes, I think to be honest, we don't expect any limitation on our ability to take on new work because of an inability to provide bonding. I think one of the

things we should also just realise is that before this situation that developed in Australia, we never had any bonds called on the group. And in the mining industry, or the mining business, it never ever happened. So, the risk of bonds being called this extremely low. I would almost say it's zero. And the bonding providers also understand that. The next part of the question?

Ed Jardim
Was with regards to raising capital. What are the options that you use?

Henry Laas
As I mentioned, normally if you find yourself in a difficult position, you sell off non-core assets. And that is what we have done in the disposal of our investment in the Bombela Concession Company. There aren't any other non-core assets within the group. So, the focus for us would be cost reduction, where we can further reduce our cost. There is working capital that we can tighten up. I think this cash tied up in working capital that can be released into the group. And then we are generating cash as a business.

Based on the forecast that we have done to date, it shows that we can meet our obligations, and that we will still have cash available after that. So, having said that, we could trade out of the current position. We are you confident that that can happen. But it's challenging to work under the pressure of your banks the whole time, because that is expected to be the case given our current levels of debt. But as I said, we are confident that we can move through this difficult period.

I think a capital injection always is an obvious alternative and obvious choice. It may be an easy way out. It's not something that shareholders always would be supportive of, because the question is asked, what is the purpose of raising capital? If the purpose of raising the capital is just to settle the debt to the banks, they might not be all that supportive of it. They like to support capital raises if that is to support growth in the business. So, I think our circumstances are such that a capital raise is always an option. And we will certainly give consideration to that. But before you embark on that path, you must know that you've got to support of your shareholders, and you have to be able to successfully implement a capital rise. But it is one of the options that we would think about as we consider all the other options available to us.

Ed Jardim
Thank you. A final question on the webcast. What's next for Murray & Roberts? Is an SA construction business a consideration or is the focus on being a multinational mining business?

Henry Laas
I think if we have to be realistic, what is next for Murray & Roberts? The focus this has to be to stabilise the group where we are currently. Stabilise the group, get our debt under more controllable levels. I think that is that is the first thing we need to do. Making sure that we are as lean and mean an organisation as we can be. And that we are as efficient as we can be on our operations. I think that's the first step. How to grow the business beyond that. I think the mining industry, or the mining platform is a platform that has been good for the group for many years. And that would be an obvious focus area for us to see whether we can grow the business in in the mining space.

I think to get back into the SA construction, we as a group have lost our capability in civil construction type work in South Africa when we sold Concorde a couple of years back. So, we don't necessarily see that for us as an attractive opportunity in the short to medium term. So, our focus essentially is going to be on the mining business and the renewable energy sector through Steve's business. Stabilise the businesses process and see how we can take it forward from there.

Ed Jardim
Thank you, Henry. Perhaps just a final check in the room. Any other questions for Henry, Daniel, Mike or Steve? Thank you, Henry.

Henry Lass
Thank you. Thank you very much. Thank you.

END OF TRANSCRIPT