



**GOVERNANCE, RISK  
& REMUNERATION  
REPORTS**



“

THE GROUP STRIVES TO  
ACHIEVE THE HIGHEST  
STANDARDS OF BUSINESS  
INTEGRITY, ETHICS AND  
CORPORATE GOVERNANCE  
IN ITS PURSUIT OF ITS  
STRATEGIC AND  
BUSINESS OBJECTIVES.”

60 GOVERNANCE REPORT

64 RISK MANAGEMENT REPORT

72 REMUNERATION REPORT

92 DETAILED GROUP DIRECTORATE

# GOVERNANCE REPORT



## STATEMENT OF COMMITMENT

The Board continues to lead the Group in striving to achieve the highest standards of business integrity, ethics and corporate governance, in the pursuit of its strategic and business objectives. The Board also encourages the executive team to conduct the business of the Group with prudence, transparency, integrity and accountability.

The Board has continued on its journey of achieving and exceeding the requirements of King III. The Group complies with all 75 principles of King III.

The full table of King III Governance Principles, showing the level of Group compliance, is available online at [www.murrob.com](http://www.murrob.com).

## BOARD OF DIRECTORS

At the date of this report, Murray & Roberts had a unitary Board with ten directors, of whom eight are independent non-executive directors and two are executive directors. The composition of the Board promotes a balance of authority and prevents any one director from exercising undue influence over decision-making.

The Board is the Group's highest governing authority and has ultimate responsibility for corporate governance across the Group. It appreciates that strategy, risk, performance and sustainability are interdependent and the Board is responsible for approving the strategic direction of the Group, which addresses and integrates each of these elements. The Board is governed by a charter ("the Board Charter") that sets out its accountability, responsibility and duty to the Group through the Company.

Each member of the Board has a fiduciary duty to act in the best interests of the Company and, in discharging such duty, ensures that the Company performs in the best interests of its stakeholders. The Company's key stakeholders include its shareholders, clients, partners, employees, regulators and the societies in which it operates.

### THE BOARD'S KEY RESPONSIBILITIES IN TERMS OF THE BOARD CHARTER INCLUDE:

- § Providing ethical leadership and direction to the Group in all matters;
- § Approving and monitoring the implementation of the strategic plan developed by management;
- § Responsibility for risk governance and monitoring key risk areas;
- § Responsibility for the governance of IT;
- § Directing the commercial and economic fortunes of the Group;
- § Ensuring the Group is a responsible corporate citizen by considering the impact of its business operations on its employees, society and the environment;
- § Monitoring that the Group complies with all relevant laws, rules, codes and standards of business practice through a Compliance Framework;
- § Monitoring that the Group's communications with all relevant stakeholders are open and prompt;
- § Ensuring shareholders are treated equitably and equally;
- § Ensuring that disputes are resolved effectively and expeditiously; and
- § Monitoring performance through the various Board committees established to assist in the discharging of its duties while retaining full accountability and without abdicating its own responsibilities.

“THE BOARD IS THE GROUP’S HIGHEST GOVERNING AUTHORITY AND HAS ULTIMATE RESPONSIBILITY FOR CORPORATE GOVERNANCE ACROSS THE GROUP. IT APPRECIATES THAT STRATEGY, RISK, PERFORMANCE AND SUSTAINABILITY ARE INTERDEPENDENT AND THE BOARD IS RESPONSIBLE FOR APPROVING THE STRATEGIC DIRECTION OF THE GROUP, WHICH ADDRESSES AND INTEGRATES EACH OF THESE ELEMENTS.”

Directors are required to act with due care and skill in all dealings and to uphold the ethics and values of the Group. The Board is required to adhere to agreed standards of accepted behaviour and guidance on decision-making, which promotes integration and coordination, and reaffirms the commitment of each Board member to the Group.

The independent non-executive directors complement the executive directors through the diverse range of skills and experience they bring to bear. They also provide the Board with independent perspectives on corporate governance and strategy as a whole.

There is an agreed procedure for directors to seek professional independent advice at the Company’s expense when they feel the need to seek such advice.

## BOARD MEETINGS

The Board formally meets five times a year. In addition, directors meet ahead of the scheduled meeting at which the Group’s budget and business plan is examined in the context of an approved strategy. At this meeting, the directors engage with senior executives on the development and implementation of the Group’s strategy. Between meetings directors are kept informed, by the Group chief executive, of major developments affecting the Group.

The Board’s policy of visiting areas of the Group’s operations on an annual basis has continued. During the year under review, the Board visited the De Beers Venetia project in Limpopo, South Africa.

## SELECTION OF DIRECTORS

The Board has an approved policy on the selection and continuation of office for directors, and the nomination and evaluation processes to be followed. One third of all directors are required to retire annually by rotation and if put forward for re-election, are considered for reappointment at the annual general meeting. All directors are appointed at the annual general meeting by shareholders’ resolution. The Board is permitted to remove a director without shareholder approval for due cause.

The nomination committee makes appropriate recommendations to the Board on the appointment and re-election of directors. This process encompasses an annual evaluation of skills, knowledge and experience, considers South African transformation imperatives and ensures the retention of directors with an extensive understanding of the Group. All recommended director appointments are subject to background and reference checks. Re-election of directors to the Board is made according to a formal and transparent process. Each non-executive director is provided with a formal letter of appointment.

Newly appointed non-executive directors undergo an induction process to familiarise them with the Group. This includes extensive meetings and discussions with Group management.

The Board, assisted by the nomination committee, assessed the independence of the non-executive directors. All non-executive directors meet the criteria for independence, including Michael McMahon who has served on the Board since 2004 and Royden Vice who has served on the Board since 2005. The Board confirmed that it is satisfied that there are no relationships or circumstances which affect or appear to affect their judgement and that their independence is not in any way affected by their respective lengths of service.

## CHANGES TO THE BOARD

During the year under review, Ralph Havenstein joined the Board on 1 August 2014. Ralph was appointed to the health, safety & environment committee and to the social & ethics committee. Subsequent to year end, Suresh Kana joined the Board on 1 July 2015 and was appointed to the audit & sustainability, remuneration & human resources and risk management committees. Xolani Mkhwanazi joined the Board on 1 August 2015 and was appointed to the risk management and health, safety & environment committees. Michael McMahon stepped down from the health, safety & environment and the remuneration & human resources committees during the year, but continues to serve as chairman of the risk management committee and is a member of the nomination and audit & sustainability committees. Bill Nairn retired from the Board with effect from 1 January 2015.

## CHAIRMAN AND GROUP CHIEF EXECUTIVE

The roles of chairman and Group chief executive are separate. They operate under distinct mandates issued and approved by the Board that clearly differentiate the division of responsibilities within the Group and ensure a balance of power and authority.

The chairman, an independent non-executive director, presides over the Board, providing it with effective leadership and ensuring that all relevant information is placed before it for decision. The Group chief executive is responsible for the ongoing operations of the Group, developing its long-term strategy, and recommending the business plan and budgets to the Board for consideration and approval.

## GOVERNANCE REPORT CONTINUED

The Board appoints the chairman and the Group chief executive. The Board appraises and appoints the chairman annually and the remuneration & human resources committee appraises the Group chief executive annually. This committee also assesses the remuneration of the Board, and of the chairman and the Group chief executive. The nomination committee is responsible for Board succession planning.

### GROUP SECRETARY

Bert Kok is the company secretary, and is responsible for ensuring the proper administration of the Board and that sound corporate governance procedures are followed. All directors have access to the advice and services of the company secretary and have full and timely access to information that may be relevant for the proper discharge of their duties.

The Board evaluates the competency and effectiveness of the company secretary, as required in terms of the JSE Listings Requirements. The evaluation process includes an assessment of the company secretary's eligibility, skills, knowledge and execution of duties. The Board has considered and is satisfied that the company secretary is competent and has the requisite qualifications and experience to effectively execute his duties. Bert has more than 10 years' experience as a company secretary in a listed company environment. He was previously a director of Chartered Secretaries Southern Africa and its past president in 2010.

The Board confirms that the company secretary maintains an arm's length relationship with the Board and the directors, noting that the company secretary is not a director of the Company and is not related to any of the directors. The company secretary is independent from management and does not have executive duties and responsibilities, aside from the core responsibilities of a company secretary. He is not a material shareholder of Murray & Roberts and is not party to any major contractual relationship with Murray & Roberts.

### BOARD COMMITTEES

The Board has established and mandated a number of permanent standing committees to perform specific work on its behalf in various key areas affecting the business of the Group. They are the:

- n Executive committee
- n Audit & sustainability committee
- n Health, safety & environment committee
- n Nomination committee
- n Remuneration & human resources committee
- n Risk management committee
- n Social & ethics committee.

Shareholders elect the members of the audit & sustainability committee at each annual general meeting. The audit & sustainability committee still forms part of the unitary Board even though it has statutory duties over and above the responsibilities set out in its terms of reference.

Although all the committees assist the Board in the discharge of its duties and responsibilities, the Board does not abdicate its responsibilities. The Board and each committee give attention to new and existing governance and compliance matters according to their respective mandates.

Each committee operates according to Board-approved terms of reference, which are reviewed annually and updated where necessary. With the exception of the executive committee, an independent non-executive director chairs each committee. The committee chairmen are appointed by the Board.

Each committee chairman participates fully in setting the committee agenda and reporting back to the Board at the following Board meeting. As mandated by the individual committee's terms of reference, each committee chairman attends the annual general meeting and is available to respond to shareholder questions on committee activities.

### BOARD AND COMMITTEE EFFECTIVENESS

Self-assessment questionnaires on the effectiveness of the Board, its committees and individual directors were conducted during the year. An internal appraisal of the chairman was led by the chairman of the remuneration & human resources committee and discussed by the Board. The appraisals were positive and their recommendations are being followed through for implementation.

The main finding of the Board evaluations was that the Board requires reinforcement with additional members, partly due to upcoming retirements. This has now been addressed by the appointments of Suresh Kana and Xolani Mkhwanazi.

### EXECUTIVE COMMITTEE

The directors of Murray & Roberts Limited serve as members of the executive committee of the Board, which is chaired by the Group chief executive. The directors of Murray & Roberts Limited support the Group chief executive in:

- n Implementing the strategies and policies of the Group;
- n Managing the business and operations of the Group;
- n Prioritising the allocation of capital, technical know-how and human resources;
- n Establishing best management practices and functional standards;
- n Approving and monitoring the appointment of senior management; and
- n Fulfilling any activity or power delegated to the executive committee by the Board that conforms with the Company's memorandum of incorporation.

### RISK MANAGEMENT, SYSTEMS OF CONTROL AND INTERNAL AUDIT

Details of the Group's risk management process, systems of control and internal audit are set out in the risk report on page 64.

### CONFLICTS OF INTEREST AND SHARE DEALINGS

Directors are aware that when a matter is considered by the Board in which they individually have a direct or indirect interest, this interest is to be disclosed prior to the Board meeting. These disclosures are noted by the Board when necessary, and recorded in the minutes of the Board meeting.





“

THE MAIN FINDING OF THE BOARD EVALUATIONS WAS THAT THE BOARD REQUIRES REINFORCEMENT WITH ADDITIONAL MEMBERS, PARTLY DUE TO UPCOMING RETIREMENTS. THIS HAS NOW BEEN ADDRESSED BY THE APPOINTMENTS OF SURESH KANA AND XOLANI MKHWANAZI.”



In accordance with the JSE Listings Requirements, the Group has a policy requiring directors and officers who may have access to price-sensitive information, to be precluded from dealing in the Group's shares, as well as during closed periods. Such closed periods commence from the end of December until the release of the Group's interim results in February of each year and from the end of June until the release of the Group's annual results in August of each year.

To ensure that dealings are not carried out at a time when other price-sensitive information may be known, directors, officers and participants in the share incentive scheme must at all times obtain permission from the chairman, Group chief executive or Group financial director, as the case may be, before dealing in the shares of the Group. The Company secretary is notified of any share dealings and, in conjunction with the corporate sponsor, publishes the details of dealings in the Group's shares by directors and officers that have been approved on the Stock Exchange News Service of the JSE Limited.

## SPONSOR

In terms of the JSE Listings Requirements, Deutsche Securities (SA) Proprietary Limited acted as sponsor.



[www.murrob.com](http://www.murrob.com) // Board committee reports and record of attendance.

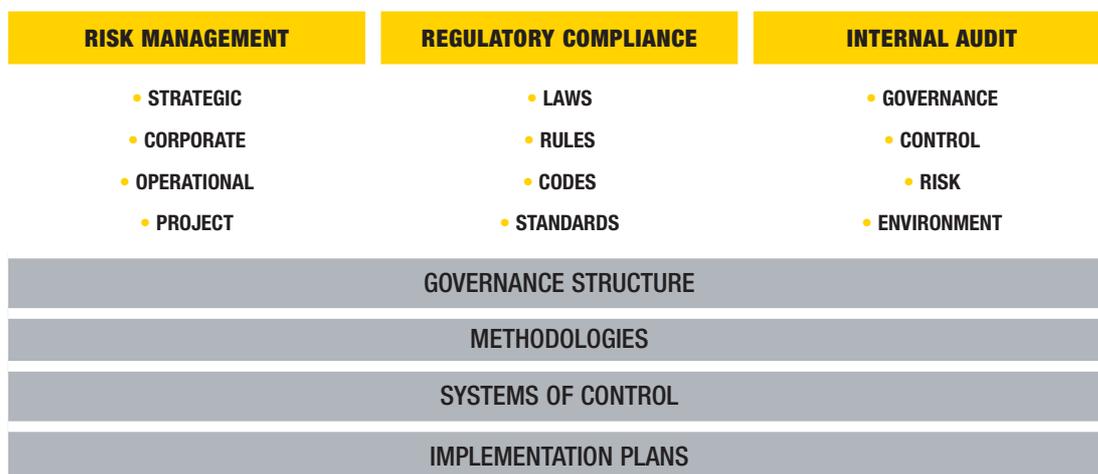
# RISK MANAGEMENT REPORT

## GROUP INTEGRATED ASSURANCE FRAMEWORK

THE GROUP INTEGRATED ASSURANCE FRAMEWORK COORDINATES THE GROUP'S OVERALL APPROACH TO RISK MANAGEMENT.

This entails identifying, assessing, addressing, monitoring, communicating and reporting Group risk, and includes the process of independently auditing adherence to and implementation of Group policies, standards, plans, procedures, practices, systems, controls and activities to ensure that the Group achieves the level of operational efficiency and compliance required by the Board.

The Board-approved Group Integrated Assurance Policy establishes and mandates the risk management, regulatory compliance and internal audit functions; effectively as the following three pillars of the Group Integrated Assurance Framework.



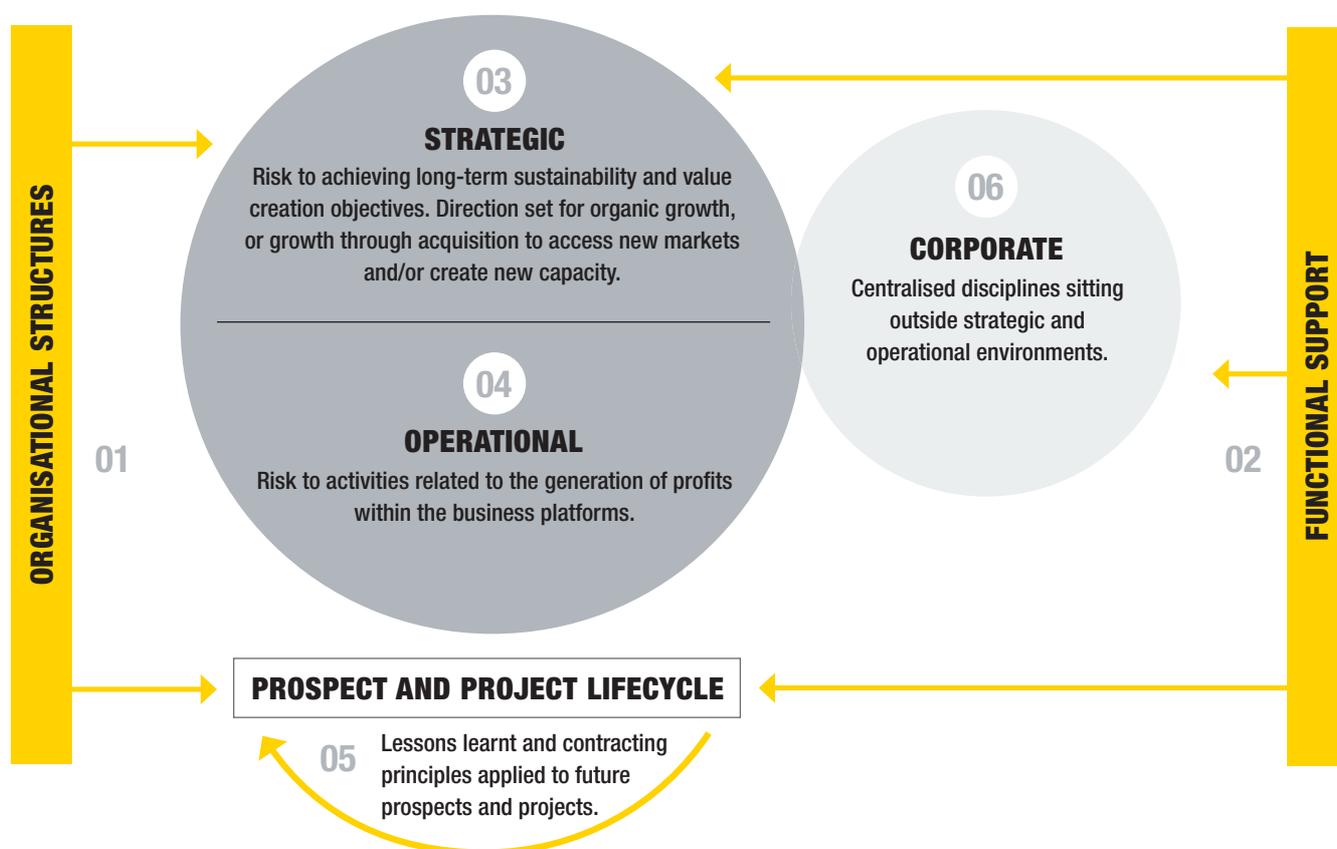
### RISK MANAGEMENT

A high level of risk awareness and response has been embedded in daily management and operational activities. Given the size and complexity of the Group, Murray & Roberts acknowledges that risk can never be fully eliminated. For this reason, management has designed and implemented a planned and structured approach to identify, assess, address, monitor, communicate and report the Group's large and complex risks. This includes governance structures (such as the Board risk management committee, the executive committee and the business platform risk committees), organisational leadership, strategic planning and effective management to ensure that the appropriate operational and functional capacities, as well as controls, systems and processes are in place to manage risk. Underpinning this is the Group Integrated Assurance Framework.

**The Group Risk Management Framework constitutes one of three pillars on which the Group Integrated Assurance Framework stands, and aims to:**

- n Align strategy with risk tolerance;
- n Improve and streamline decision-making which improves the Group risk profile;
- n Promote the strategic, informed and coordinated procurement of a quality order book;
- n Ensure equitable commercial terms and conditions are contracted, together with the rational pursuit of commercial entitlement;
- n Promote early and rigorous project reviews, and timeous response to projects showing signs of distress;
- n Promote continuous improvement through the application of key lessons learnt;
- n Reduce operational surprises, improve predictability and build shareholder confidence;
- n Build robust organisational risk structures and facilitate timeous interventions, to promote long-term sustainable growth; and
- n Promote the efficient and proactive pursuit of opportunities.

## THE GROUP RISK MANAGEMENT FRAMEWORK



### 01 ORGANISATIONAL STRUCTURES

In addition to the various Group operating board responsibilities, organisational structures have been created and tasked with risk governance and include the business platform risk committees, the Murray & Roberts Limited risk committee and the Murray & Roberts Limited project oversight committee.

### 02 FUNCTIONAL SUPPORT

Dedicated risk management support has been created at Group level and within businesses. This includes enterprise-wide risk leadership, risk management monitoring, risk-based auditing and operational and risk committees.

### 03 STRATEGIC RISK MANAGEMENT

Strategic risk is evaluated as a hurdle to achieving the Group's long-term strategy. Direction is set for organic and acquisitive growth to access new markets and create new capacity, and is also applied to acquisitions, disposals, new business development and timely and necessary leadership intervention.

### 04 OPERATIONAL RISK MANAGEMENT

Operational risk is a potential barrier to achieving planned profits within the Group's business platforms.

### 05 PROJECT RISK MANAGEMENT

Project risk is evaluated as a potential barrier to delivering contracted scopes against cost, time and technical performance targets, while maintaining health, safety and environmental performance at acceptable levels. A Project Management Framework sets the minimum standard for project management required in the delivery of projects across the Group. A Project Management Development Programme is in place to enhance and hone project management skills across the Group. The framework also provides internal audit with a consistent set of processes and controls against which project performance is tested. Project risk management activities include the Group risk tolerance filters, lessons learnt and contracting principles schedules, project reviews and project dashboards.

### 06 CORPORATE RISK MANAGEMENT

Corporate risk management relates to a range of portfolios within the Corporate Office which address various forms of risk including risk management standards and procedures, the Statement of Business Principles, Group Code of Conduct, regulatory compliance, commercial and legal oversight, integrated assurance, business continuity and information technology disaster recovery, treasury, bonds and guarantees, insurance, crisis communication and forensic investigations.

**RISK MANAGEMENT REPORT CONTINUED****REGULATORY COMPLIANCE**

With the continued growth and expansion of the Group, especially in new geographies and disciplines, regulatory compliance is a large and complex area to understand. This in turn requires a structured approach to evaluate compliance failures and ensure adequate responses are initiated timeously to mitigate and avoid any negative impact on the Group's performance. The regulatory compliance function provides specific focus on regulatory compliance risk within the context of the Group Integrated Assurance Framework.

The key imperative of regulatory compliance is to ensure material compliance across the Group with every law, rule, code and standard where non-compliance could materially impact the Group's performance and/or continued existence, whether from a financial, legal or reputational perspective.

The implementation of the Group Regulatory Compliance Framework focuses on the seamless integration of regulatory compliance (with risk management and internal audit) into business planning, execution and management.

**INTERNAL AUDIT**

Internal audit is a key element of the Group's assurance structure, and constitutes the third pillar of the Group Integrated Assurance Framework. Internal audit has established a robust, risk-based approach to identify the critical risk management control environment which is relied on by management, and which is to be tested and evaluated for the purposes of providing the Board with the risk management and regulatory compliance assurance it requires to meet its governance objectives. Internal audit follows a planning and execution process through which the risk-based approach is delivered in a consistent manner, followed by detailed reporting and issue tracking.

It is through diligent implementation of the Group Integrated Assurance Framework that the critical risk processes and responses to be included in the internal audit plan are developed. These include interactions with the Group risk manager and the Group legal executive, and with specific reference to their respective mitigation objectives, strategies and plans. The audit plan also encompasses the assessment of Group-wide corporate governance, internal financial controls and risk management procedures, as well as specific areas highlighted by the audit & sustainability committee, Group executive committee and by executive and operational management for separate and dedicated review.

**RISK MANAGEMENT PRACTICES**

Leaders, tasked with overall governance but who are not involved in the engine room of the business they govern, require line-of-sight to the mechanics for which they are ultimately accountable.

So too in the case of risk management, the Board is responsible for the performance of the Group it governs, but is remote from the details that influence (positively or negatively) the outcomes. For this reason, leadership requires line-of-sight to the controls, procedures, processes and systems that deliver the outcomes to ensure that they are appropriate, complete, robust and timeous in application.

The Group has defined four discrete risk environments, being: Strategic, Corporate, Operational and Project. Each risk has a specific owner, be it a business platform, operating board or an individual executive.

In addition, the risk management and internal audit functions, located in the Corporate Office (and which advise on risk management approaches, methodologies and systems), monitor that risk management is diligently exercised at every level across the Group, and in turn separately report to various constituted boards and forums on both the inherent risk and the residual risk across the Group. This reporting is on a materiality basis, so the higher the level of authority, the greater the level of risk filtration.

As a project-based company, the predominant source of risk is in the project area. Murray & Roberts is an international contractor and contracting on a variety of projects, which differ in specification, scope and size, introduces significant risk into the Group.

**To reduce project risk as far as possible, the following procedures are strictly followed:**

- n Only competent and experienced executives prepare bids for submission.
- n All opportunities are logged on the Opportunity Management System, which tracks and processes opportunities, subjecting them to a series of risk tolerance filters. These filters are in turn extracted from the delegation of authority matrix, which is approved by the Board.
- n In preparing bids, based on first principles and on a bottom-up basis, the estimating tools used across the Group are proven and validated. The costing process is comprehensive, and subject to rigorous and independent internal review.
- n Risks are identified based on past experience and carved out contractually or priced and then managed within budget.
- n Critical bid requirements are: the exclusion and/or pricing of known risks; projects must be cash positive; unacceptable risks and unusual contracting terms are prohibited; and liability is always limited.
- n Prices are usually based on a Bill of Quantities and where a lump sum project is accepted, the design must be mature, the scope clear and an efficient mechanism for change management and dispute resolution must be included in the contract.
- n An allowance for contingencies (unforeseen or unplanned risks) is added to the bid price to cater for possible risks (threats) that cannot be proactively priced and managed. They are a hedge against risk and are utilised within the framework for which they are established. They are under the control of the project director and the use of a contingency is ratified by the project review committee.
- n Generally known suites of contracts are used, such as FIDIC, NEC, JBCC, GCC, and specific attention is placed on the special terms. Bespoke contracts are negotiated based on the detailed guidance of internal and external attorneys.
- n Large and complex project bids are subject to independent review and approval by the Murray & Roberts Limited risk committee, which issues a mandate that has to be followed by the project negotiation team. Projects above US\$300 million are escalated to the Murray & Roberts Holdings risk management committee for attention. Any deviation from a mandate is referred back to the relevant risk committee for a final decision.
- n The designated executive, identified to lead the project, signs off on the final bid terms and conditions to achieve effective ownership.
- n The Murray & Roberts project oversight committee reviews large and complex projects to ensure performance is in line with the tendered terms and prevailing circumstances (to recognise changes in market conditions). Projects showing signs of distress are also reviewed by this committee, but the objective of the committee is to avoid projects entering into distress by identifying early signs of difficulty and ensuring corrective action is initiated.

To further mitigate project risk, Murray & Roberts has developed a Project Management Framework. A formal bespoke Project Management Development Programme is in place to train project managers/executives in the discipline of project management. Candidates are appropriately certificated on successful completion of the programme.

Critical to the preparation of bids and successful project delivery is the application of two standards to each bid based on the costly lessons learnt by the Group in the past:

- n Group Schedule of Contracting Principles
- n Group Schedule of Lessons Learnt.

All bids submitted are tested against the above two standards to ensure that the identified risks are correctly addressed.

The four business platforms, which comprise the Murray & Roberts Group's project businesses, are also the source of operational risk. Risk exposures typically relate to infringement of laws (including Competition Laws) and human (safety), environmental, commercial, technical and logistical activities. Each business platform has its own risk committee at which these and project risks are regularly reviewed and assessed, together with responsible management's mitigation actions.

Strategic and corporate risks are associated with the activities of the office of the Group chief executive and the executive committee members operating in the Corporate Office. Risks associated with macro factors, growth (organic and acquisitive), new markets, new products, accounting, taxation, banking/bonding, funds transfers and the like are managed within the Corporate Office, reviewed by the risk committee quarterly and reported to Murray & Roberts Limited and Murray & Roberts Holdings Limited.

A Group Business Continuity standard and procedure has been formulated and is currently being implemented within each business platform.

The practice of risk management has been widely implemented across the Group. Embedding of risk management is being driven by executive management. As a final control over the management of risk across the Group, every Group area and activity is subject to audit, by both external auditors and internal auditors. The Murray & Roberts internal audit function is well resourced to carry out its mandated review and evaluation function, which includes risk management, and its findings are evaluated to corroborate the findings of the risk management function in its assessment of the adequacy of risk management across the Group.

RISK MANAGEMENT REPORT CONTINUED

The material Group risks, in no order of priority, are discussed below:

**STRATEGIC RISKS**

TREND KEY: OPPORTUNITY THREAT INCREASING THREAT STABLE THREAT DECREASING CLOSED OUT

**INDUSTRIAL UNREST**



Ongoing industrial unrest in South Africa continues to cause project delays and disruptions, impacting on productivity, safety and profitability. It also adds a further hurdle to the decision-making process for investment in new capital projects, particularly in the mining sector.

**MITIGATION**

- § An Employee Relations Framework has been implemented across the Group's South African operations.
- § Shop stewards have been appointed on all sites to improve communication and the Visible Felt Leadership safety initiative is being used as a means to address a broader range of issues affecting employees.
- § Strike mitigation plans are in place at each business.
- § Client engagement and contract and commercial management on projects has been further enhanced to ensure early and comprehensive pursuit of commercial entitlements.
- § There is a continued focus on growing our footprint in less risky markets and sectors.

**MACRO ECONOMY**



Global demand for commodities is primarily driven by economic growth in China and India. A slowdown in these economies impairs the demand for commodities, which impacts negatively on businesses servicing the mining industry.

Europe's low growth has forced European-based contractors into new markets, with an increased appetite for risk and competition in Africa and the Middle East.

Declining business confidence in South Africa, a volatile labour market and power constraints, lead to reduced foreign investment and may further constrain opportunities in the local mining markets.

Insufficient South African government infrastructure spend impacts negatively on a number of business areas within the Infrastructure & Building platform, in particular civils and roads & earthworks.

**MITIGATION**

- § Focus on key client relationships to promote negotiated contracts with equitable terms, focusing on value rather than price.
- § Grow further in the natural resources sector, particularly water.
- § Continue implementation of African growth strategy in selected countries within the East, West and Central Africa regions.
- § Focus the Group's South African capacity to align with anticipated Government spend, and size the South African operations to align with available opportunities.
- § Diversify across the project life-cycle with emphasis on operations and maintenance, particularly within the oil and gas sector.



## GROW OIL AND GAS MARKETS

Oil and gas is needed to fuel growing global energy demands. However, the current low oil price has had a major impact on the revenues of gas producers and has created a decline in capital projects and capital spend within the sector. When the sector fundamentals stabilise, Clough is strategically placed to become a meaningful player and facilitator in the African gas fields, in addition to its traditional Australasian markets.

### MITIGATION

- § Develop low-cost engineering centres in the United Kingdom and South Africa.
- § Establish a presence in areas where the oil and gas majors are located.
- § Establish joint ventures with other Murray & Roberts platforms to explore East African oil and gas opportunities.
- § Diversify across the project life-cycle with emphasis on operations and maintenance.
- § Diversify oil and gas capability in Australasia markets into the traditional infrastructure sector.



## GROUP LIQUIDITY

While Murray & Roberts remains in a cash positive position, outstanding claims may constrain our ability to make additional acquisitions and meet growth targets.

### MITIGATION

- § Resolve outstanding claims, including Dubai International Airport and Gautrain.
- § Continue to manage overheads and improve project performance.
- § Negotiate upfront payments with clients and ensure that all contracts remain cash positive or neutral.



## TRANSFORMATION

Lack of compliance with employment equity and BBBEE requirements could reduce the likelihood of Murray & Roberts being successful in winning South African tenders and increase the likelihood of client sanction or penalties on current South African projects being imposed if contractual BBBEE obligations are not met.

### MITIGATION

- § Monitor requirements in terms of new BBBEE codes and employment equity targets.
- § Improve management control, employment equity, skills development and enterprise & supplier development within each South African business.
- § Implementation of a Group BBBEE forum to track new developments, share ideas and suggest improvement plans.



## LEADERSHIP CAPACITY TO SUPPORT GROWTH STRATEGY

The growth strategy continues to place demands on leadership capacity.

### MITIGATION

- § A remuneration policy is in place which focuses on performance and retention of key talent.
- § Performance management and development as a leadership tool has been embedded within the Group.
- § Regular succession reviews are held to identify potential talent retention risks and apply appropriate career planning strategies to individuals.
- § Project management capacity is being built through the implementation of a recognised training curriculum based on the Project Management Body of Knowledge ("PMBOK").

## RISK MANAGEMENT REPORT CONTINUED

## OPERATIONAL RISKS

TREND KEY:  OPPORTUNITY  THREAT INCREASING  THREAT STABLE  THREAT DECREASING  CLOSED OUT**HEALTH, SAFETY AND ENVIRONMENTAL EXPOSURES**

The Group has made significant progress in managing safety risk, with a record-low LTIFR of 0.79 achieved in the reporting period. Regrettably there were four fatalities in FY2015. Anything more than Zero Harm remains a concern.

**MITIGATION**

- § The Zero Harm through Effective Leadership programme is in place and is aimed at establishing a purpose-driven culture that will ensure sustainable improvement in health and safety.
- § The Visible Felt Leadership initiative has been rolled out throughout the Group and is being monitored for effectiveness.
- § Fatal Risks Control Protocols ("FRCP") and Life Saving Rules are in place across the Group.
- § Major Accident Prevention ("MAP") plan to be implemented in all operations.
- § The Philisa Care Employee Health and Wellness programme has been rolled out in South Africa to improve health and wellness standards and performance across the Group. Similar programmes have been rolled out across a number international businesses.
- § An Environmental Framework, incorporating a number of critical standards, has been implemented to regulate important environmental issues such as energy efficiency, carbon emissions, waste and water.

**COMPETITION LAW AND REPEAT COLLUSIVE ACTS**

Settlement has been reached with the Competition Commission on all legacy matters. Focus through training, information sharing and executive declarations is ongoing, ensuring that there are no repeat collusive acts.

**MITIGATION**

- § The induction programme for new employees includes competition law training and refresher training is repeated annually for every affected employee.
- § All executives sign competition and anti-bribery and corruption declarations biannually.
- § All tenders include signed declarations by executives involved in the tender regarding the prohibition of unethical and unlawful practices.

## PROJECT RISK



### PROJECT PERFORMANCE

A number of projects within the Group's portfolio continued to deliver losses during the year under review.

#### MITIGATION

- § Management regularly reviews underperforming projects to revisit and revise recovery plans and programmes.
- § Clients are engaged to find common cause around the recovery plans.
- § The oversight committee continues to review projects in distress and provide guidance until improvements are embedded.
- § Project management capacity is being built through the implementation of a recognised training curriculum based on PMBOK.
- § While good progress has been made in instilling and practicing sound project management processes and procedures across the Group, a small number of project failures were experienced in the Power & Water business platform, resulting in the relevant business areas being rationalised and closed and the affected projects managed and closed out with due mitigation of losses, for which full provision has been made.



### RISK AT TENDER STAGE AND COMMERCIAL CLOSE

There is a risk of bidding and winning projects with onerous project conditions and/or unacceptable commercial conditions.

#### MITIGATION

- § All prospects are classified in terms of the nine risk filters, which are built into the Opportunity Management System.
- § All prospects are registered on the Opportunity Management System, thereby ensuring process assurance through the inbuilt workflow system.
- § Risk assessments are completed for all tenders and projects.
- § All tenders rated as high risk are tabled at formal risk committee meetings.
- § All contracts of tenders that were approved by the risk committee are independently reviewed to ensure that they are in line with the mandate given by the risk committee.
- § Commercial close-out is completed diligently for every project according to the mandate given.



### SA POWER PROGRAMME (KUSILE AND MEDUPI)

The recent wide-scale and prolonged industrial action has placed pressure on the underlying contractual relationships. There is a risk of not being compensated for costs incurred during strike periods.

#### MITIGATION

- § Rigorous contract management and administration is being exercised.
- § Clients are being engaged to resolve outstanding matters.
- § Disputes will be arbitrated if they cannot be resolved amicably.



### UNCERTIFIED REVENUES

Uncertified revenues taken to book on Dubai International Airport and Gautrain must still be realised through protracted claims processes. This creates the risk of a write-back of revenues accounted for in prior financial years if the outcomes are less favourable than anticipated.

#### MITIGATION

- § Notice of arbitration has been submitted and the Dubai legal team is pursuing a resolution to the dispute.
- § The arbitration ruling on the Gautrain water ingress, while finding that the tunnel is functionally safe to operate, was ruled in favour of Province in relation to specification. A provision to effect the necessary remedial work has been raised. The delay and disruption claim progresses and continues to receive the full attention of a dedicated legal team, working with committed executives, to ensure that the case is pursued in the most competent and comprehensive manner. The legal basis of our claim was advanced in the second separated hearing, which was won convincingly in arbitration in the last half of FY2015.