

# THE *NEW STRATEGIC FUTURE* UNFOLDS

## A MULTINATIONAL, SPECIALIST ENGINEERING AND CONSTRUCTION GROUP...

Murray & Roberts transferred its listing on the JSE from Heavy Construction to Diversified Industrials on 20 March 2017, the beginning of a new development trajectory.

## ...WITH A RESILIENT BUSINESS MODEL AND CLEARLY DEFINED STRATEGY...

Diversification of the business model and international expansion has deepened the Group's resilience and growth potential, underpinned by its philosophy of *Engineered Excellence* and progress towards Zero Harm.

## ...A ROBUST FINANCIAL POSITION TO NAVIGATE BUSINESS CYCLES AND FUND GROWTH...

Low gross gearing and a robust cash position has enabled the Group to withstand market cyclicity and pursue its growth plans.

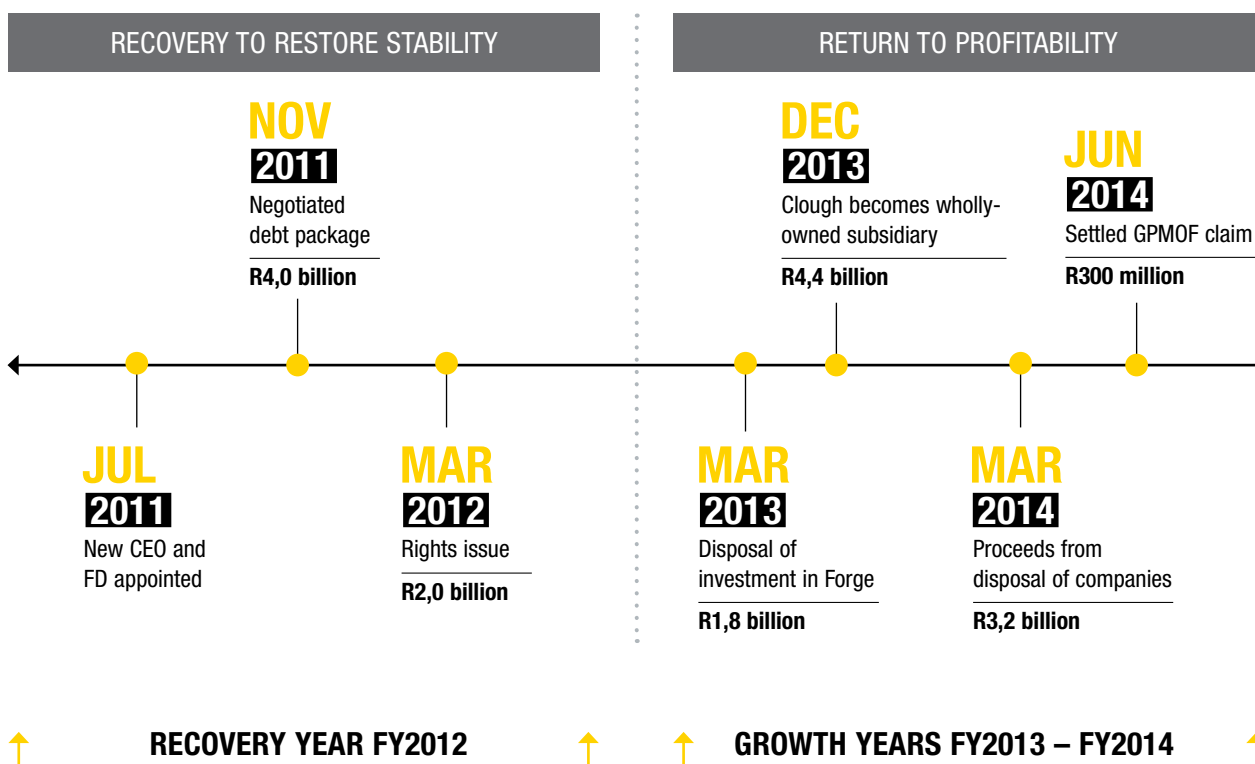
## ...AND A STRONG ORDER BOOK AND PROJECT PIPELINE SUPPORTING A POSITIVE LONG-TERM OUTLOOK.

Diversification across core and complementary markets, geographies and the project life cycle has resulted in a much-improved, high-quality order book that will support an improving performance in the next few years.

FROM THE FOUNDATION SET OVER THE PAST EIGHT YEARS, MOMENTUM IS GATHERING IN THE GROUP'S IMPLEMENTATION OF THE *NEW STRATEGIC FUTURE* PLAN. AS ITS BUSINESS PLATFORMS GAIN STRATEGIC MATURITY, THE OUTCOMES OF BUSINESS MODEL RESILIENCE, SUSTAINABLE GROWTH AND PROFITABILITY, AND EXCELLENCE AS A COMPETITIVE ADVANTAGE, ARE MOVING THE GROUP TOWARDS ITS ASPIRATIONS.

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## STRATEGIC MILESTONES IN THE PAST EIGHT YEARS





SETTING THE FOUNDATION FOR SUSTAINABLE GROWTH

**AUG  
2014**

Dividend payment resumed

**MAR  
2017**

JSE sub-sector change and new FD appointed

**SEP TO JAN  
2014 2016**

Acquired:

- Aquamarine (SA)
- Booth Welsh (EU)
- CH-IV (USA)
- Enercore (CA)
- Merit (CA)

**APR  
2017**

Sale of Infrastructure & Building platform  
**R314 million**

GATHERING MOMENTUM

**DEC  
2017**

Increased investment in BCC

**APR  
2018**

ATON mandatory offer

**MAY  
2019**

Acquired:

- Clough USA (USA)
- Terra Nova Technologies (USA)
- Boipelo Mining Contractors (SA)
- OptiPower Projects (SA)

**R0,8 billion**

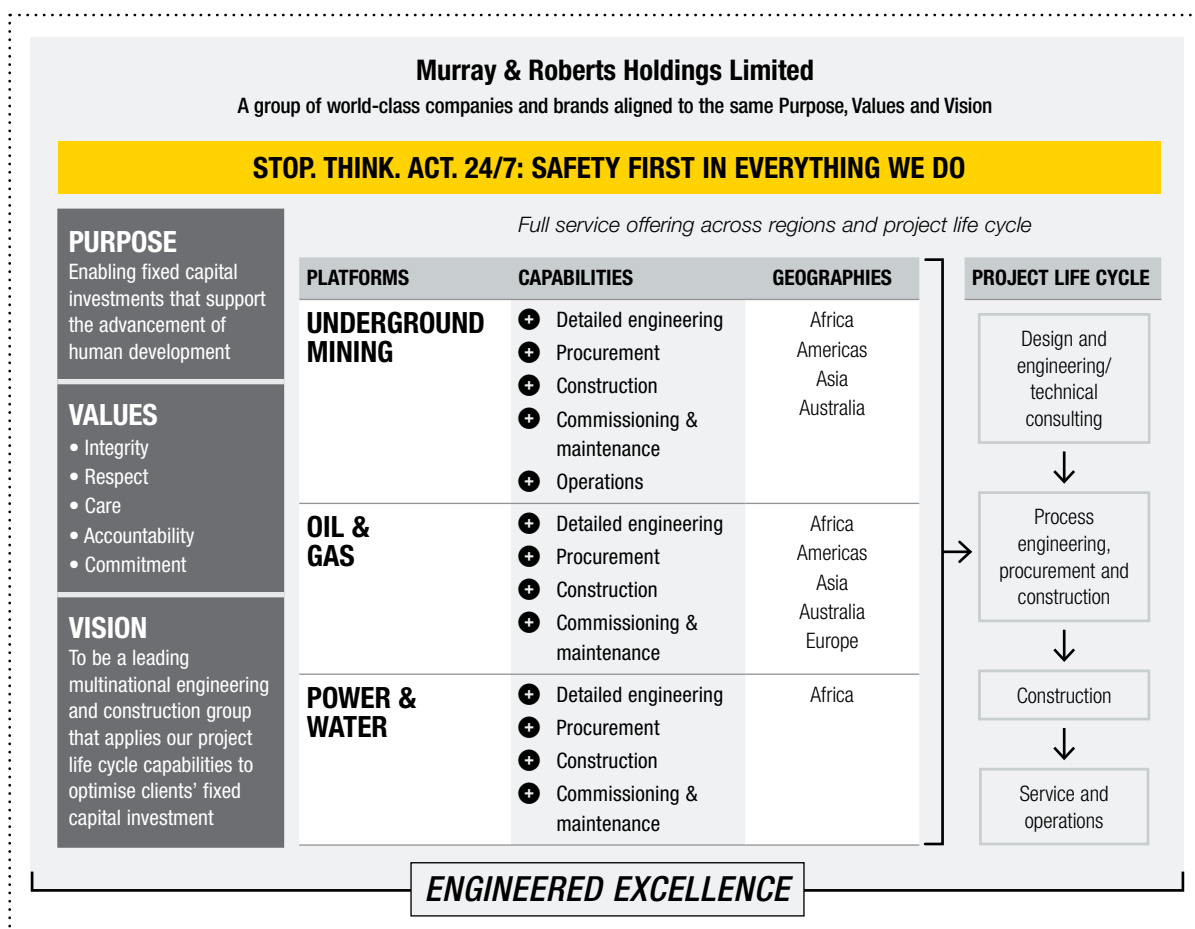
**NEW STRATEGIC FUTURE FY2015 +**

# DIVERSIFIED FOR SUSTAINABLE GROWTH

**THE GROUP'S PURPOSE CONNECTS OUR CAPABILITIES TO THE INVESTMENT OUR CLIENTS MAKE IN PROJECT INFRASTRUCTURE THAT SUPPORTS THE LONG-TERM DEVELOPMENT OF COUNTRIES, INDUSTRIES AND COMMUNITIES, WHICH IS THE SHARED OUTCOME OF OUR BUSINESS MODEL.**

Our Values guide us individually and collectively in everything we do, in every country we work, and our philosophy of *Engineered Excellence* informs our management approach at every level of the organisation. This underpins the Group's competitiveness and reputation as a well-governed, values-driven and ethical multinational organisation, which is how we define the leadership aspiration in our Vision.

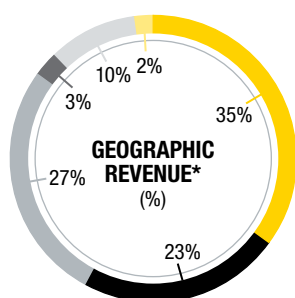
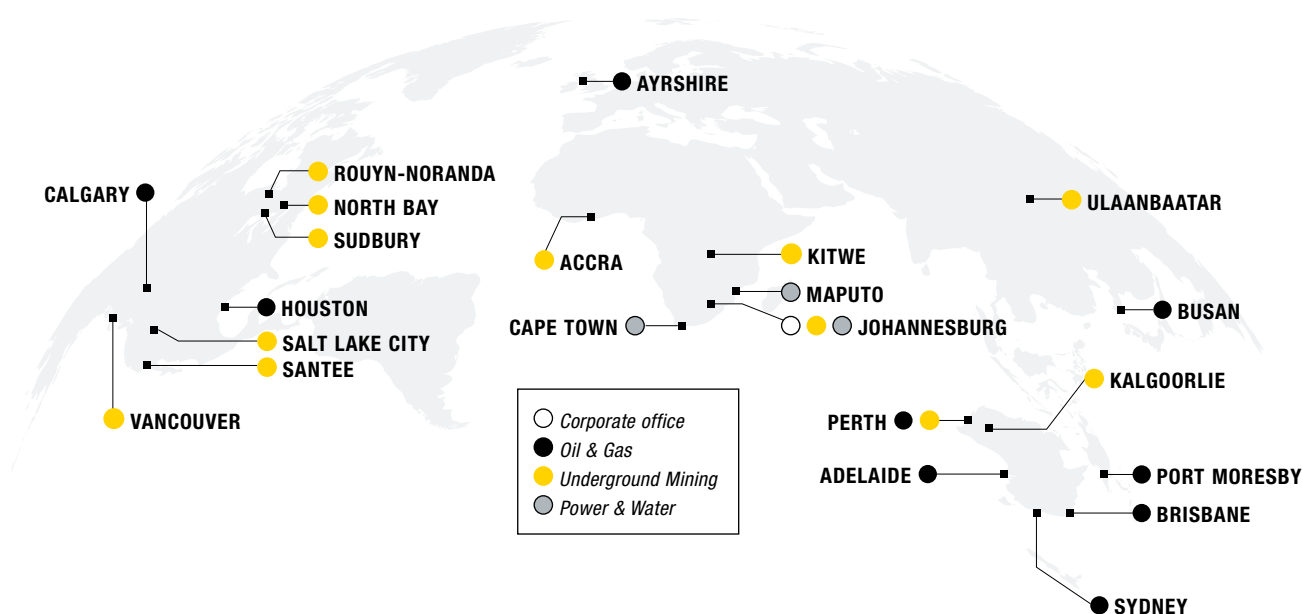
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## Business model resilience

Positive long-term demand drivers including global population growth, rapid urbanisation and economic growth inform the Group's core focus on selected global natural resources market sectors. Although the Group is exposed to the cyclicity of commodity demand, its business model is designed to diversify its growth potential through the cycle. The combination of portfolio, geographic and capability diversification provides a blend of revenue and earnings in our core market sectors. Diversification into complementary markets mitigates the impact on the Group of commodity downcycles.

- The Group's geographic footprint is focused on establishing a permanent presence in high-growth regions for our clients. We also support clients on an ad hoc basis in other geographies where we do not have a permanent presence.
- The Group's capabilities across the project life cycle enable us to provide a seamless and competitive service offering, while diversifying our revenue and margin mix.
- The Group identifies high-growth complementary markets based on the regional capabilities and competitive advantages of the platforms.



Oceania

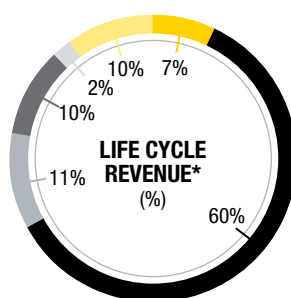
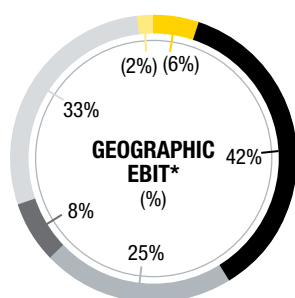
South Africa

Americas

Rest of Africa

Asia

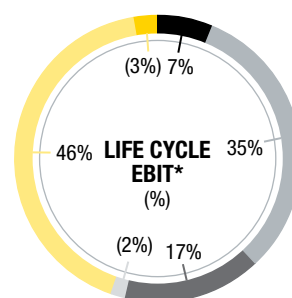
Europe



Planning &amp; engineering

Commissioning

Maintenance &amp; refurbishment



Construction^

Operations

Development/Investment

\* Excluding Corporate, Middle East and BCJV.

^ Not civil and building construction.



# STRATEGY FOR FOCUSED VALUE CREATION

Value drivers	Corporate action	Key considerations	FY20	FY21	FY22	
STRATEGY EXECUTION AND DELIVERY	Strategic focus	+ Delivery of clear medium-term business plans across platforms.	✓	✓	✓	
		+ Continue to expand internationally.	✓	✓	✓	
		+ Leverage market position to deliver organic growth in each platform.	✓	✓	✓	
		+ Closure of the Middle East operation and the Dubai airport claim.	✓			
	Mergers and acquisitions	+ Identify and conclude value-accretive acquisitions in growth markets across platforms to support growth.		✓	✓	
		+ Position platforms in developed markets and higher margin segments of the project life cycle.	✓	✓	✓	
OPERATIONAL PERFORMANCE	Performance management	+ Keep platforms accountable to the standards, systems, practices and reporting of <i>Engineered Excellence</i> .	✓	✓	✓	
		+ Deliver/exceed ROICE targets and earnings guidance.	✓	✓	✓	
		+ Target overhead costs of about 5% of revenue, through the cycle.		✓	✓	
OPTIMAL CAPITAL STRUCTURE	Balance sheet management	+ Target appropriate gearing level to support sustainable growth in context of commodity cycle and market volatility.	✓	✓	✓	
CASH RETURNS TO SHAREHOLDERS	Dividend policy	+ Stable annual dividend, may be supplemented from time to time with a special dividend.	✓	✓	✓	
STRONG SHAREHOLDER REGISTER	Shareholder engagement	+ Secure support from shareholders on strategy and value proposition.	✓	✓	✓	

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Implementation of the *New Strategic Future* plan gathered momentum in the year, with the business platforms consolidating their strategic positions, growth prospects and earnings potential in line with market opportunities.

The Group's disciplined approach to managing the complex risks across our multinational operations, through robust and well-defined risk management processes and practices, supports our ability to deliver on our strategy and create value in the longer term. The table below connects our strategic objectives and related top risks, the mitigation of which is detailed in the risk management report, along with the actions we are taking to manage our material issues.

Risk drivers	Link to material issues
<b>STRATEGIC RISKS</b> <ul style="list-style-type: none"> <li>+ Vulnerability to macroeconomic factors.</li> <li>+ Group liquidity.</li> <li>+ Capitalising on the recovery of oil and gas markets.</li> </ul> <b>PROJECT RISK</b> <ul style="list-style-type: none"> <li>+ Uncertified revenues.</li> </ul>	<b>Business model resilience</b> <ul style="list-style-type: none"> <li>+ Leverage market position to drive short-term growth.</li> <li>+ Diversify earnings potential through organic and acquisitive means.</li> <li>+ Manage capital and liquidity effectively.</li> </ul> <b>Employer of choice</b> <ul style="list-style-type: none"> <li>+ Ensure leadership quality and succession depth through proactive development.</li> <li>+ Attract and retain high-performing talent.</li> </ul> <b>Corporate reputation</b> <ul style="list-style-type: none"> <li>+ Respond effectively to local requirements.</li> </ul>
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<b>STRATEGIC RISK</b> <ul style="list-style-type: none"> <li>+ Group liquidity.</li> </ul> <b>PROJECT RISK</b> <ul style="list-style-type: none"> <li>+ Uncertified revenues.</li> </ul>	<b>Business model resilience</b> <ul style="list-style-type: none"> <li>+ Manage capital and liquidity effectively.</li> </ul>
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# ***ENGINEERED EXCELLENCE***

## **FOR STRATEGIC ADVANTAGE**

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*ENGINEERED EXCELLENCE*  
**DRIVES THE GROUP'S GROWTH,  
COMPETITIVENESS, RESILIENCE AND  
REPUTATION – THE CORNERSTONES  
OF SUSTAINABLE VALUE CREATION.**

*Engineered Excellence* is a philosophy that defines our management approach at every level of the organisation. It supports our ability to offer specialist services that are clearly differentiated by excellence to clients in our chosen markets. It drives continuous improvement in project risk management and delivery, and in achieving industry-leading health, safety and environmental performance – which is as important to our clients as it is to our employees. It underpins the Group's reputation as a well governed, values-driven and ethical organisation.

## CONTRACTOR of choice

Our reputation for project excellence is an important differentiator in competitive markets.

Recognition as a contractor of choice supports our ability to secure work, negotiate fair commercial terms and engage with clients earlier in the design phase of projects. Early engagement enables us to propose solutions that mitigate risk and enhance project delivery. Disciplined management of commercial and execution risk in tendering for and delivering projects, aims to minimise losses and protect margins. This extends to ensuring that local contracting partners align to the Group's project delivery standards including health and safety risk management, as well as risks pertaining to compliance, conduct and reputational risk management. To support enhanced competitiveness and productivity, the Group is formulating a digital strategy.

ORDER BOOK  
(CONTINUING)

**R46,8  
BILLION**

30 JUNE 2018: **R30,1 billion**

ATTRIBUTABLE EARNINGS

**R337  
MILLION**

FY2018: **R267 million**

EBIT

**R791  
MILLION**

FY2018: **R864 million**

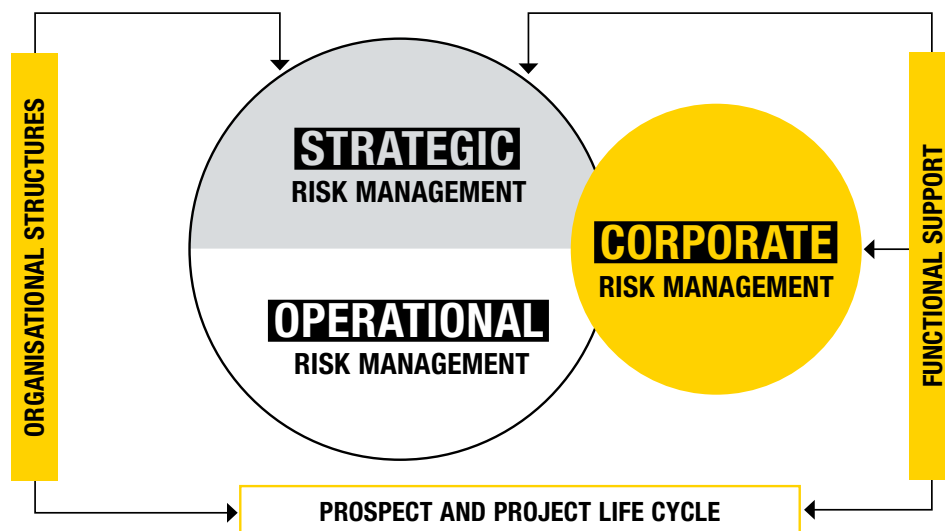


PG 42  
Business platform reviews

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## Group risk management framework

Our integrated governance, risk and sustainability management frameworks support our competitiveness. The business platforms are held accountable for implementing the non-negotiable standards, systems, practices and reporting that brings *Engineered Excellence* to life. Risk is managed by the platforms within the Group's defined risk tolerance framework and aligned to specific contracting principles. The lessons learnt and contracting principles schedules are regularly updated in response to specific issues. As we anticipate shifts in the Group's opportunity and risk profile, we amend these frameworks accordingly. A well-constituted governance structure ensures effective strategic direction and oversight of the business platforms from the corporate office and the Board.



PG 70  
Risk management  
report



## EMPLOYER of choice

Ethical leadership, employee health and safety, and diversity and localisation are strategic priorities, enabling us to attract, retain and engage high-calibre and high-performing employees who live the Group's Values.

The Group's value system is a condition of the attraction, appointment and succession of quality leaders, who are ultimately responsible for implementing Group strategy. Career advancement through training and mentorship, best people practices and adherence to the Group's diversity policy, are important aspects of our value proposition to employees. The Group is recognised for its ability to recruit locally, across the culturally diverse regions in which we operate, and provide effective training methodologies to meet the Group's high standards for safety and productivity.

### TRAINING SPEND

**R105\***  
**MILLION**

FY2018: R130 million

### BURSARIES AWARDED

**R4,4\***  
**MILLION**

FY2018: R5,2 million

**ALL BUSINESSES  
CONDUCTED EMPLOYEE  
SURVEYS IN FY2019,  
TO INFORM IMPROVEMENTS  
IN PEOPLE MANAGEMENT.**



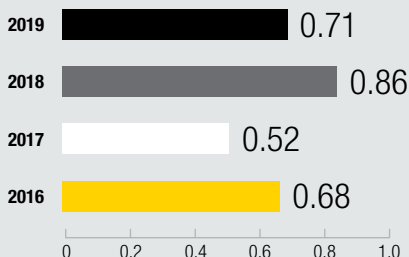
**ONLINE**  
Employer of choice

\* Decrease mainly attributable to reduction in headcount.



## Towards Zero Harm

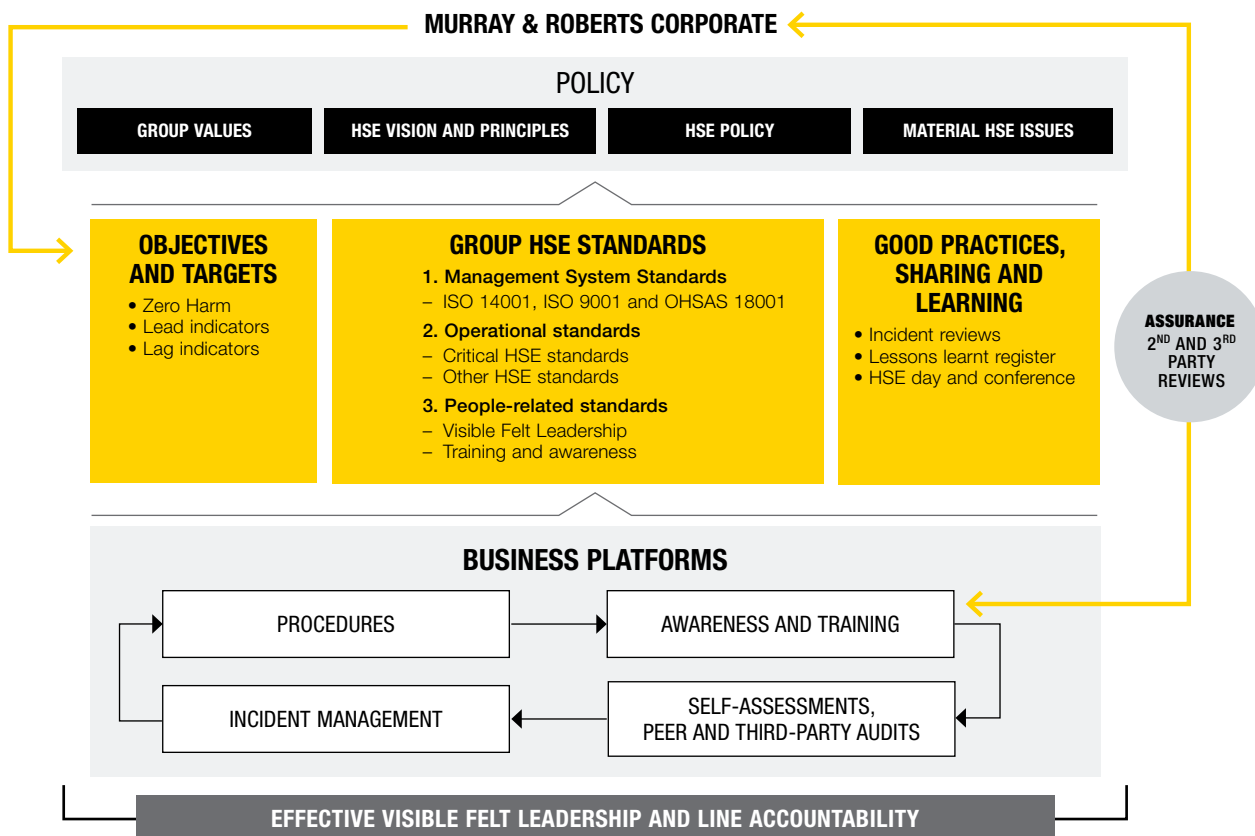
### LTIFR



THE GROUP RECORDED  
**NO FATALITIES** AND  
IMPROVED ON ITS  
INDUSTRY-LEADING  
SAFETY PERFORMANCE  
DURING THE YEAR.

The Group's safety culture has matured over the last few years, supporting our belief that Zero Harm is achievable. We continue to make health and safety improvements by better understanding our exposure risk, benchmarking ourselves against clients and peers and implementing lessons learnt from incidents and audits. We are deploying technology that lowers the baseline risk at project level and applying innovative approaches to avoid plateaus in improvement. The Group HSE framework outlines the role, responsibility and accountability of the corporate office and business platforms, and incorporates recommendations from independent experts and from ongoing risk assessments and audits.

## MURRAY & ROBERTS HEALTH, SAFETY AND ENVIRONMENT FRAMEWORK



# FINANCIAL CAPACITY FOR DELIVERY

**THE GROUP'S ROBUST FINANCIAL POSITION PROVIDES ADEQUATE CAPACITY TO FUND OUR ORGANIC AND ACQUISITIVE GROWTH PLANS.**

The Group is in a strong cash position and debt is within our target range. Cost management is a focus with all platforms targeting overhead costs of about 5% of revenue through the cycle. The resilience of our business model, clearly defined plans to capitalise on the strategic positions of our business platforms in their markets and a quality order book, positions the Group to deliver sustainable growth and improved earnings.

## REVENUE (CONTINUING)

**R20,2  
BILLION**

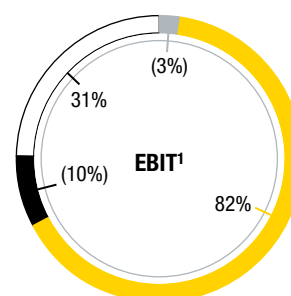
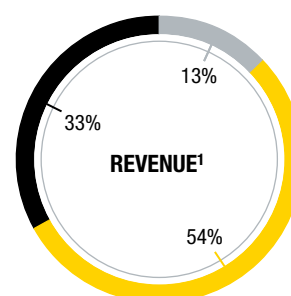
FY2018: R21,8 billion

## ATTRIBUTABLE EARNINGS

**R337  
MILLION**

FY2018: R267 million

## PLATFORM REVENUE AND EBIT<sup>1</sup> CONTRIBUTION (%)



■ Power & Water ■ Underground Mining  
■ Oil & Gas □ Investments

1. Excluding Corporate costs, Middle East and BCJV.

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## ORDER BOOK (CONTINUING)

**R46,8  
BILLION**

30 June 2018: R30,1 billion

## HEPS (DILUTED CONTINUING)

**101  
CENTS**

FY2018: 112 cents

## DIVIDEND

**55  
CENTS**

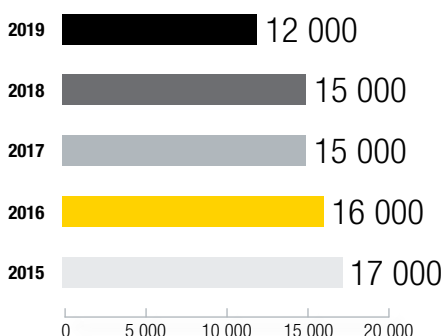
FY2018: 50 cents

## NET CASH

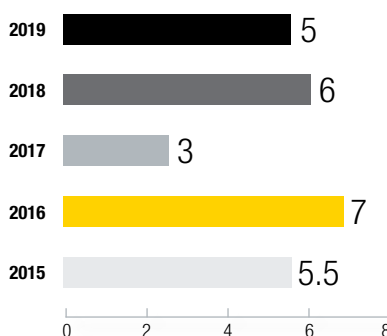
**R1,8  
BILLION**

30 June 2018: R2,0 billion

## CREATION OF VALUE (R million)



## RETURN ON AVERAGE TOTAL ASSETS (%)



**PG 114**  
Statement of value created

## Investment margins and aspirations

Our aspirations for the medium to longer term remain unchanged, supported by the evolution of the Group's strategy.

CRITERIA AND METHOD	ASPIRATION	RESULTS
<b>MARGIN</b> $\frac{\text{EBIT}^1}{\text{Revenue}}$	5% – 7.5%	<b>FY2019</b> <b>4%</b> FY2018 4.0% FY2017 2.3% FY2016 4.9%
<b>GEARING</b> $\frac{\text{Total interest bearing debt}}{\text{Ordinary shareholders equity}}$	20% – 25%	<b>FY2019</b> <b>29%</b> FY2018 7.3% FY2017 8.9% FY2016 14.4%
<b>ROE<sup>2</sup></b> $\frac{\text{Net profit attributable to ordinary shareholders}}{\text{Average ordinary shareholders equity}}$	17.5% through cycle	<b>FY2019</b> <b>5%</b> FY2018 4.0% FY2017 0.7% FY2016 11.0%
<b>ROICE<sup>3</sup></b> $\frac{(\text{Taxed EBIT} + \text{Income from associates})}{\text{Total capital employed}^5}$	WACC <sup>4</sup> (13%) plus 1% – 4%	<b>FY2019</b> <b>9%</b> FY2018 7.5% FY2017 2.6% FY2016 10.9%
<b>FREE CASH FLOW</b> $\frac{\text{Operating cash flow} - \text{Replacement CAPEX}^6 + \text{Proceeds on disposal of PPE \& intangibles}}{\text{Number of shares}}$	Budget	<b>FY2019</b> <b>cash positive</b> FY2018 Cash positive FY2017 Cash positive FY2016 Cash positive
<b>RONA<sup>7</sup></b> $\frac{\text{Taxed EBIT} + \text{Income from associates}}{\text{Total net assets (excl tax and cash)}}$	18% after Taxed EBIT	<b>FY2019</b> <b>24%</b> FY2018 11.1% FY2017 4.1% FY2016 17.0%
<b>TSR<sup>8</sup></b> $\frac{(\text{Increase in share price year on year} + \text{Dividend per share})}{\text{Share price (PY)}}$	Relative to peers	<b>FY2019</b> <b>above average</b> FY2018 Above average FY2017 Above average FY2016 Above average

1. Earnings before interest and tax.

2. Return on equity.

3. Return on invested capital.

4. Weighted average cost of capital.

5. Total capital employed = total equity + interest bearing debt – net assets held-for-sale – cash + advance payments.

6. Capital expenditure.

7. Return on net assets.

8. Total shareholder return.



# OUR LEADERSHIP

**THE BOARD LEADS AN EXPERIENCED MANAGEMENT TEAM IN ASPIRING TO THE HIGHEST STANDARDS OF INTEGRITY AS A WELL-GOVERNED, VALUES-DRIVEN MULTINATIONAL ORGANISATION.**

The Group has an accomplished and diverse Board, with competencies aligned to the Group's strategy and deep collective experience, relevant to the macroeconomic and socioeconomic realities of our markets. An effective governance structure, aligned to King IV™, is in place and a clear organisational framework defines the relationships and decision-making rights between governing bodies and business platforms.

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## INDEPENDENT NON-EXECUTIVE DIRECTORS



**SURESH KANA**  
Chairman



**RALPH HAVENSTEIN**  
Lead independent director

<b>QUALIFICATIONS</b>	BCom Hons, BCompt, CA(SA), MCom	MSc (Chemical Engineering), BCom
<b>APPOINTED</b>	01 July 2015	01 August 2014
<b>RESPONSIBILITIES</b>	Oversees Board governance and performance, and stakeholder engagement.	Addresses shareholders' concerns where regular channels fail to resolve concerns, or where the chairman may be conflicted.
<b>EXPERIENCE</b>	Former territory senior partner for PwC Africa	Former chief executive officer Anglo American Platinum, former chief executive officer Norisk Nickel International
<b>OTHER DIRECTORSHIPS</b>	Quilter, JSE Limited, King Committee on Corporate Governance	Northern Platinum, Omnia Holdings, Reatile Group, Herculite Ferrochrome
<b>RELEVANT SKILLS AND EXPERTISE</b>	Accounting, Finance, Strategic Leadership, Governance, Ethics	Petrochemistry and Mining, Chemical Engineering, Strategic Leadership
<b>COMMITTEES</b>	RHR N	HSE N RHR SE

## EXECUTIVE DIRECTORS



**HENRY LAAS**  
Group chief executive

**QUALIFICATIONS**  
BEng (Mining), MBA

**APPOINTED**  
Joined the Group in 2001. Appointed to the Board and as Group chief executive in 2011.

**RESPONSIBILITIES**  
Leads the design and delivery of Group strategy and performance, and reporting.

**EXPERIENCE**  
Former chairman of Murray & Roberts Engineering SADC, former managing director of Murray & Roberts Cementation

**RELEVANT SKILLS AND EXPERTISE**  
Mining and Engineering, Commercial Negotiations, Strategic Leadership



**DANIËL GROBLER**  
Group financial director

**QUALIFICATIONS**  
CA(SA)

**APPOINTED**  
Joined the Group in 2010. Appointed to the Board and as Group financial director in 2017.

**RESPONSIBILITIES**  
Leads the delivery of Group financial performance against aspirations, and reporting.

**EXPERIENCE**  
Former managing director of Murray & Roberts Cementation, various financial and leadership functions within the Group since 2010

**RELEVANT SKILLS AND EXPERTISE**  
Accounting, Commercial Negotiations, Strategic Leadership, Corporate Finance



**NTOMBI  
LANGA-ROYDS**



**ALEX  
MADITSI**



**EMMA  
MASHILWANE**



**DIANE  
RADLEY**



**XOLANI  
MKHWANAZI**



**KEITH  
SPENCE**

BA Law (Lesotho),  
LLB (Lesotho)

BProc, LLB, LLM

BCom Hons,  
BCompt, CA(SA),  
MBA

CA(SA), MBA,  
AMP (Harvard)

BSc, MA, PhD, EDP

BSc Hons

**01 June 2013**

**23 August 2017**

**23 August 2017**

**23 August 2017**

**01 August 2015**

**25 November 2015**

Provide independent and objective judgement as well as to counsel, challenge and monitor the executive directors' delivery of strategy within the approval framework and risk appetite agreed by the Board.

Human resources  
executive

Former operations  
planning and legal  
director for Coca-Cola  
Southern and  
East Africa

Chief executive officer  
Masa Risk Advisory  
Services

Former chief executive  
officer Old Mutual  
Investment Group  
Former chief financial  
officer Old Mutual SA

Former chairman of  
BHP Billiton SA  
Operations, former  
head of National  
Energy Regulator

Former chairman  
of Clough, former  
executive at  
Woodside, former  
executive at Shell

Mpact, Redefine  
Properties, Kumba  
Iron Ore, Europe  
Assistance Worldwide  
Services (SA)

Bidvest Group,  
African Rainbow  
Minerals

Tiger Brands,  
Famous Brands

Transaction Capital,  
Base Resources,  
DG Murray Trust

Public Investment  
Corporation,  
South 32

Santos,  
Base Resources,  
Independence  
Group NL

Human Capital,  
Law

Law, Commercial,  
Remuneration

Accounting, Finance,  
Risk Management,  
Internal Audit

Accounting,  
Corporate Finance,  
Investment, Strategic  
Leadership

Applied Physics,  
Power, Engineering,  
Mining

Oil & Gas,  
Strategic Leadership

**SE** **RHR**  
**N** **RM**

**RHR** **HSE** **SE**

**RM** **AS**

**RM** **AS**

**RM** **HSE** **SE**

**AS** **HSE** **RM**

## GROUP SECRETARY



**BERT KOK**

### QUALIFICATIONS

FCIS, FCIBM

### APPOINTED

Joined the Group in 2011.  
Appointed Group secretary in 2014.

### RESPONSIBILITIES

Ensures sound corporate governance and  
Board administration including director  
induction and training.

### EXPERIENCE

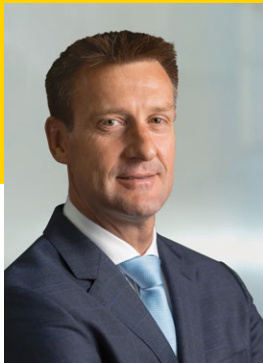
More than 10 years as Listed Company  
Secretary, former (2010) President of  
Chartered Secretaries of Southern Africa

**RELEVANT SKILLS AND EXPERTISE**  
Corporate Governance, Company  
Secretarial Administration

## COMMITTEES

<b>N</b>	<b>Nomination committee</b> Chairman: Suresh Kana
<b>SE</b>	<b>Social &amp; ethics committee</b> Chairman: Ntombi Langa-Royds
<b>RHR</b>	<b>Remuneration &amp; human resources committee</b> Chairman: Ralph Havenstein
<b>HSE</b>	<b>Health, safety &amp; environment committee</b> Chairman: Ralph Havenstein
<b>RM</b>	<b>Risk management committee</b> Chairman: Keith Spence
<b>AS</b>	<b>Audit &amp; sustainability committee</b> Chairman: Diane Radley

# GROUP EXECUTIVE



**PETER BENNETT**

Business platform  
chief executive

Peter joined the Group in 2016 and was appointed to the executive committee in February 2016. He is responsible for the Oil & Gas business platform.

- Booth Welsh
- CH•IV
- Clough
- Clough Coens
- Clough Enercore
- Clough USA
- e<sub>2</sub>o

**COMMITTEE PARTICIPATION**

- Health, safety & environment



**MIKE DA COSTA**

Business platform  
chief executive

Mike joined the Group and was appointed to the executive committee in 2018. He is responsible for the Underground Mining business platform.

- Cementation AG
- Cementation Canada & USA
- Merit Consultants International
- Murray & Roberts Cementation
- RUC Cementation Mining
- Terra Nova Technologies

**COMMITTEE PARTICIPATION**

- Health, safety & environment



**DANIËL GROBLER**

Group financial director

Daniël joined the Group in 2010 and was appointed to the executive committee in 2017. Daniël is a director of Murray & Roberts International, Bombela Concession Company and Clough.

- Corporate office finance & payroll
- Financial control & reporting
- Information management & technology
- Murray & Roberts Properties
- Secretarial
- Taxation
- Treasury

**COMMITTEE PARTICIPATION**

- Audit & sustainability
- Remuneration & human resources
- Risk management
- Social & ethics



**STEVE HARRISON**

Business platform  
chief executive

Steve joined the Group in 2011 and was appointed to the executive committee in September 2015. He is responsible for the Power & Water business platform

- Aquamarine
- Murray & Roberts Power & Energy
- Murray & Roberts Water
- OptiPower Projects

**COMMITTEE PARTICIPATION**

- Health, safety & environment



**IAN HENSTOCK**  
Commercial executive

Ian joined the Group and was appointed to the executive committee in 2008. He is the corporate executive responsible for the assurance, commercial and legal portfolios. Ian is a director of Murray & Roberts International and Clough.

- Commercial
- Forensics
- Internal audit
- Legal, compliance and ethics

**COMMITTEE PARTICIPATION**

- Audit & sustainability
- Risk management
- Social & ethics



**HENRY LAAS**  
Group chief executive

Henry joined the Group in 2001 and was appointed to the Board and as Group chief executive in July 2011. Henry is a director of Murray & Roberts International, Bombela Concession Company and Clough.

- Sustainable delivery of Group strategy and performance

**COMMITTEE PARTICIPATION**

- Audit & sustainability
- Health, safety & environment
- Remuneration & human resources
- Risk management
- Social & ethics



**THOKOZANI MDULI**  
Risk and health, safety & environment executive

Thokozani joined the Group in 2010 and was appointed to the executive committee in 2013. He is responsible for risk and health, wellness, safety and environment. Thokozani oversees the Group's BBBEE verification and transformation plans.

- Risk
- Health, safety & environment
- BBBEE

**COMMITTEE PARTICIPATION**

- Health, safety & environment
- Risk management
- Social & ethics



# MANAGING OUR MATERIAL ISSUES

Strategic maturity

1

## BUSINESS MODEL RESILIENCE

Leverage market positions to drive short-term growth

Diversify earnings potential through organic and acquisitive means

Manage capital and liquidity effectively

2

## CONTRACTOR OF CHOICE

Deepen *Engineered Excellence* philosophy

Accelerate the application of relevant technology

3

## EMPLOYER OF CHOICE

Ensure leadership quality and succession depth through proactive development

Maintain best people practices to attract and retain high-calibre talent

4

## CORPORATE REPUTATION

Maintain reputation as an ethical and responsible multinational organisation

Respond effectively to local requirements

Sustainable profitability

## 1

**BUSINESS MODEL  
RESILIENCE****CONTEXT:**

Variable cyclical dynamics will continue to characterise core and complementary market sectors.

Underground Mining is expected to maintain profits at current high levels in the medium term.

Foundations are in place for Oil & Gas profit recovery from a low base: in metals & minerals and infrastructure markets in the short term; and gas & petrochemical markets in the medium term.

The sustainability of the Power & Water business model is dependent on opportunities emerging in target segments of core and complementary markets.

The Group's financial position is robust and sufficient to fund our organic and acquisitive growth plans.

**MATERIAL ISSUE****LEVERAGE MARKET POSITIONS TO DRIVE SHORT-TERM GROWTH****GROUP**

- ⊕ Maximise growth potential in buoyant markets in Underground Mining.
- ⊕ Harness competitive advantages in Oil & Gas to secure work in metals & minerals and infrastructure.
- ⊕ Secure projects in target market segments in Power & Water.
- ⊕ Integrate and grow new acquisitions by utilising Group relationships and scale.
- ⊕ Anticipate and respond to market shifts to tactically position businesses for growth.

**UNDERGROUND MINING**

- ⊕ Improve project delivery efficiency and innovate to optimise margins and grow market share.
- ⊕ Cementation Canada & USA:
  - Integrate TNT and develop new material handling service offering.
- ⊕ Murray & Roberts Cementation:
  - Integrate Boipelo JV and develop new contract mining service offering in the coal sector.

**OIL & GAS**

- ⊕ Increase presence in Australian infrastructure and Australasian mining market sectors.
- ⊕ Enhance skills and contracting expertise and leverage reputation for complex project delivery in metals & minerals and infrastructure markets.
- ⊕ Maximise new EPC capability in the USA to secure opportunities in this high-growth market:
  - Complete the integration of Clough USA.

**POWER & WATER**

- ⊕ Accelerate revenue replacement by targeting complementary market segments.
- ⊕ Optimise OptiPower's track record to win work from Eskom in transmission, distribution and substation sectors.
- ⊕ Secure opportunities in power plant repair and maintenance.
- ⊕ Secure opportunities in renewable energy, including solar and gas-to-power.
- ⊕ Secure opportunities in resources and industrial, and paper and pulp industries.
- ⊕ Grow Aquamarine market share in chemicals and components market.

**DIVERSIFY EARNINGS POTENTIAL THROUGH ORGANIC AND ACQUISITIVE MEANS****GROUP**

- + Pursue targeted geographic diversification and growth opportunities.
- + Optimise margins and balance of risk by exposure to project life cycle phases, in particular operations and maintenance.
- + Enhance competitiveness through selective cross-platform collaboration.
- + Maintain strategic flexibility by leveraging positions in complementary markets to ensure long-term resilience.
- + Drive organic growth through local partnerships.
- + Access new sources of annuity-type income through investment as project developer and operator.

**UNDERGROUND MINING**

- + Increase commodities footprint where market outlook is positive.
- + Cementation Canada & USA:
  - Increase North American market share.
  - Access opportunities in South America and with existing clients in Europe.
- + Murray & Roberts Cementation:
  - Develop local partnerships in Central and West Africa, with a focus on raise boring project opportunities.
  - Grow annuity-type income by securing contract mining projects.
- + RUC Cementation Mining:
  - Develop opportunities in Asia and other markets with the Oil & Gas platform.
- + Explore opportunities in opencast mining to increase contract mining income and mitigate impact of project investment cycles.

**OIL & GAS**

- + Expand Clough USA's service offering and market presence by leveraging synergies across the platform's geographic footprint.
- + Capitalise on track record to secure opportunities in PNG's LNG expansion.
- + Target opportunities in the international oil and gas market with global clients:
  - Kazakhstan, Canada and Mozambique.

**POWER & WATER**

- + Expand project development, EPC, and operations and maintenance service offering.
- + Target transmission, distribution and substation projects in sub-Saharan Africa.
- + Target opportunities in the refined fuel storage sector in South Africa and the LNG sector in Mozambique.
- + Establish scale in water business:
  - Pursue municipal wastewater opportunities based on Organica demonstration plant results.
  - Offer bespoke solutions for industrial water treatment in mining and power sectors.
  - Secure annuity income through chemical supply contracts and operation of wastewater treatment plants.
- + Develop relationships with equity and funding partners.







## MATERIAL ISSUE

MANAGE CAPITAL AND LIQUIDITY  
EFFECTIVELY

## GROUP

- + Ensure disciplined cost management to achieve overhead costs of about 5% of revenue through the cycle.
- + Manage free cashflow in operations.
- + Manage short-term liquidity facilities per platform.
- + Target net debt to equity ratio of not more than 35%.
- + Preserve liquidity by managing cyclical impacts on working capital due to:
  - Project delays and deferrals in soft markets.
  - Rapid upswings in activity as markets recover.
- + Manage financial impact of close-outs and claims:
  - Recover at least uncertified revenue recorded for Dubai Airport, power programme and other claims.
  - Manage costs associated with the closure of the business in the Middle East.
  - Conclude the Grayston temporary works collapse matter.

## UNDERGROUND MINING

- + Implement platform-wide procurement initiatives to drive savings through economies of scale.
- + Minimise idle assets by selling non-strategic assets or deploying them on other projects.
- + Negotiate advance payments on new projects to improve working capital.
- + Manage project margins and cash flow to optimise working capital.

## OIL &amp; GAS

- + Monitor and manage costs incurred for business development and tenders to secure new work.
- + Negotiate advance payments on new projects to improve working capital.

## POWER &amp; WATER

- + Reduce working capital by recovering uncertified revenues through settlement of claims.
- + Develop external funding solutions to drive project development opportunities.
- + Expedite claims resolution:
  - Manage CTFE project dispute.
  - Manage the complicated claims process associated with the power programme.



## 2

CONTRACTOR  
OF CHOICE

## CONTEXT:

Excellence in all areas of project delivery underpins our aspiration to be a contractor of choice.

Our ability to attract and retain the best management and technical expertise is critical to this aspiration.

Local contracting and technology partners are a requirement when securing work, making it necessary to ensure alignment of principles and standards.

## MATERIAL ISSUE

DEEPEN *ENGINEERED EXCELLENCE* PHILOSOPHY

## GROUP

- Strive for Zero Harm:
  - Maintain fatality-free operations across the Group.
  - Focus on lag and lead indicators.
  - Continue to develop, enhance and share effective interventions to maintain world-class safety performance.
  - Assess effectiveness in managing critical controls using the MAP/CRM programme.
  - Continue to innovate towards Zero Harm.
  - Align with client safety systems, where appropriate.
- Minimise project losses:
  - Competitive and correct pricing of projects, considering project risk and minimum standards.
  - Conclude contracts on reasonable commercial terms, considering Group lessons learnt and contracting standards.
  - Effective resourcing and start-up of projects.
  - Achieve predictable outcomes in line with tender expectations through effective project and risk management.
  - Align contracting standards with changes in commercial risk profile.

## OIL &amp; GAS

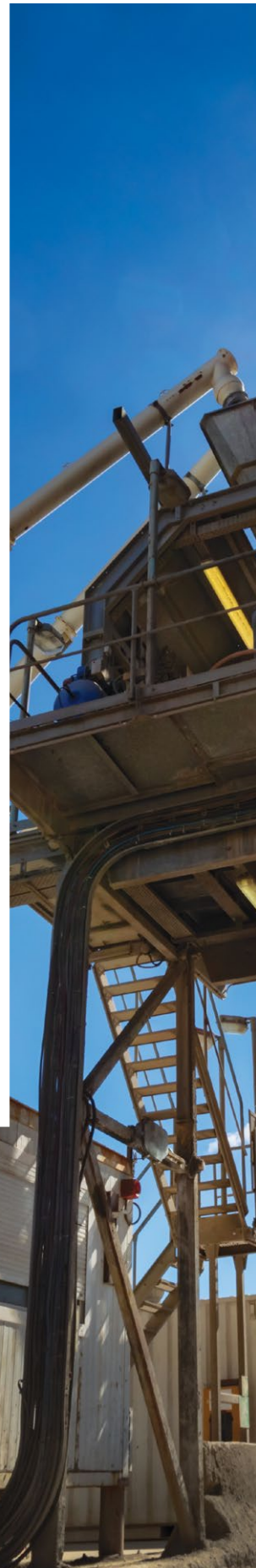
- Maintain world-class safety performance through real-time reporting and innovative approaches to HSE leadership training.
- Continue to deepen client relationships and business partnerships.
- Ensure commercial and operational discipline to manage financial risk of fixed-price contracts.

## POWER &amp; WATER

- Maintain world-class safety performance:
  - Maintain LTIFR at record-low.
  - Implement Neuroleadership programme to deepen safety culture maturity.
- Ensure compliance with new contracting standards, especially for cost-reimbursable commercial arrangements on projects taken over from other contractors.
- Maintain operational and commercial discipline throughout tendering process.

## UNDERGROUND MINING

- Maintain world-class safety performance through steady reduction in LTIFR and sustained improvement in TRCR.
- Streamline safety and project management systems.
- Share best practices to support safety and efficiency improvements.
- Provide ongoing commercial and project management training.
- Apply technology to enhance project performance and maintain leading market position:
  - Update IT platforms to cloud-based infrastructure.
  - Improve productivity and drive efficiency by investing in automation and innovation.





## MATERIAL ISSUE

ACCELERATE THE  
APPLICATION OF RELEVANT  
TECHNOLOGY

## GROUP

- + Understand the potential of technology to enhance competitiveness:
  - Perform Group technology maturity assessment.
  - Understand which technologies can enhance productivity in specific sectors and service offerings.
  - Develop leadership mindset and capacity to adapt to technological advances.
- + Accelerate technologically enabled operations to achieve efficiency gains:
  - Invest in and commercialise innovative technology.
  - Establish appropriate technology partnerships.

## UNDERGROUND MINING

- + Operationalise technology-enabled processes including training applications, remote controlled and automated production processes, and asset maintenance systems.
- + Drive current innovations to commercial maturity and monitor technological innovation.
- + Cementation Canada & USA:
  - Improve asset management, cost accounting and project management systems to improve project delivery.
- + Murray & Roberts Cementation:
  - Enhance systems, skills and processes to be a leading mechanised mining contractor in Africa.
- + RUC Cementation Mining:
  - Leverage investment in Insig Technologies to drive application of automation technology, to enhance competitiveness.

## OIL &amp; GAS

- + Invest selectively in innovation and technology to support transformation of supply chains.
- + Develop a digital platform that focuses on scalable technology that meets the demands of a global EPC business.

## POWER &amp; WATER

- + Commercialise environmentally friendly class-leading Organica wastewater treatment technology.
- + Enable digitalisation in core and project support systems, and increase productivity, flexibility, adaptability as well as efficient asset management.



# 3

## EMPLOYER OF CHOICE

### CONTEXT:

Our aspiration to be an employer of choice in all our markets supports the recruitment, development and retention of competent, high-performing and ethical employees.

It underpins our ability to resource effectively according to the realities of market and project cycles.

A key driver of success is the Group's culture, which is centred on our Values of Integrity, Respect, Care, Accountability and Commitment.

### MATERIAL ISSUE

## ENSURE LEADERSHIP QUALITY AND SUCCESSION DEPTH THROUGH PROACTIVE DEVELOPMENT

### GROUP

- Continue to align leadership succession to diversity objectives in all platforms.
- Emergency successors identified for all executive roles across all platforms.
- Accelerate and support career progression of high-performing talent identified for future leadership roles.
- Align performance contracts with Group strategic objectives across platforms for middle management and above. Where formal performance contracts are not in place, team-based targets clarify performance requirements.
- Deliver leadership development programmes.

### UNDERGROUND MINING

- Deliver leadership training from supervisors to future leaders, and maintain succession plans through training interventions:
  - A new Management Training programme in Cementation Canada & USA.
  - Murray & Roberts Training Academy's programmes for first-time supervisors.
  - RUC Cementation's Leadership Development programme.
  - Drive a learning culture in Cementation North America.

### OIL & GAS

- Coach and mentor high-potential employees to develop into future leadership roles.
- Develop future leaders through Clough's Construction Management Academy, Project Management Academy and Young Professionals Group for talented employees.

### POWER & WATER

- Develop and mentor a high-performing core group of leaders and supervisors, with a focus on black talent.





## MATERIAL ISSUE

MAINTAIN BEST PEOPLE PRACTICES TO ATTRACT  
AND RETAIN HIGH-CALIBRE TALENT

## GROUP

- ⊕ Embrace international standards of social justice, decent work and human rights, while also aligning policies and procedures to the legislation and basic conditions of employment of the countries we operate in.
- ⊕ Maintain ISO 9001 accreditation in all platforms and the associated audits.
- ⊕ Safety first philosophy to achieve Zero Harm across all platforms.
- ⊕ Maintain effective employee wellness programmes.
- ⊕ Offer career advancement through job experience on high-profile projects and extensive skills development and training, and coaching opportunities.
- ⊕ Offer structured performance management and development linked to market-related remuneration and incentive schemes.
- ⊕ Conduct new employee induction sessions with all employees to communicate the Group's Values, culture and performance expectations.
- ⊕ Ongoing communication and engagement initiatives between Group leadership and employees.
  - Address areas of improvement identified in the employee engagement surveys undertaken in all businesses.
- ⊕ Ensure responsible resourcing despite market and project cycles:
  - Retain core skills through continuous engagement.
  - Attract required skills timeously through effective people planning to mobilise projects on time and within budget.
  - Responsible approach to retrenchments to right-size operations during downturn and when demobilising projects.

## UNDERGROUND MINING

- ⊕ Regional training centres offer best practice technical and supervisory training.
- ⊕ Murray & Roberts Cementation:
  - Offer innovative training solutions, including virtual and augmented reality applications.
- ⊕ Resource growth at the top of the cycle by attracting scarce specialised skills and investing in training.

## OIL &amp; GAS

- ⊕ Strengthen capabilities to deliver excellent project outcomes.
- ⊕ Provide depth and variety of work experiences to attract and retain the right talent.
- ⊕ Implement process and workflow improvements identified in employee engagement survey.
- ⊕ Provide flexible employment options.

## POWER &amp; WATER

- ⊕ Provide training and development interventions to build a high-performing core group of artisans and supervisors to meet strategic objectives.



## 4

CORPORATE  
REPUTATION

## CONTEXT:

Stakeholder trust and support is critical to the Group's success and sustainability.

Governance frameworks and reporting structures ensure visibility of and compliance across all platforms.

Businesses are expected to align to the Group's frameworks, standards and Values as minimum best practice, despite local operating differences.

Managing the impact of local dynamics on project delivery to limit contagion risk is imperative for the Group's credibility with multinational clients.

Recognition as a responsible corporate citizen that responds to national objectives and complies with local laws, codes and standards is critical to the Group's licence to operate.

## MATERIAL ISSUE

MAINTAIN REPUTATION  
AS AN ETHICAL AND  
RESPONSIBLE  
MULTINATIONAL  
ORGANISATION

## GROUP

- ⊕ Embed and align Group frameworks, standards and Values in acquired businesses.
- ⊕ Ensure adherence to the Group diversity policy across the platforms.
- ⊕ Uphold reputation for responsible and ethical conduct:
  - Comply with laws, standards and codes in all operations.
  - Senior management declaration on ethical behaviour every six months.
  - Conduct ongoing compliance and ethics training.

## UNDERGROUND MINING

- ⊕ Embed Group frameworks, standards and Values in TNT acquisition.

## OIL &amp; GAS

- ⊕ Embed Group frameworks, standards and Values in Clough USA acquisition.

## POWER &amp; WATER

- ⊕ Embed Group framework, standards and Values in OptiPower Projects acquisition.



## RESPOND EFFECTIVELY TO LOCAL REQUIREMENTS

## GROUP

- + Accelerate diversity and localisation to remain competitive.
- + Respond to local requirements and norms within the context of Group expectations.
- + Effectively manage local factors pertinent to safety, work culture, labour and community relations, local procurement and community development.
- + Develop and implement industrial relations strategy prior to starting any project.
- + Invest in corporate social responsibility programmes.

## OIL &amp; GAS

- + Improve workforce participation by indigenous communities and women.
- + Drive workplace equality through memberships in the Diversity Council of Australia and the Gender Equity Group.
- + Develop community engagement management plans for new projects to support project delivery and benefit communities.
- + Support organisations, communities and causes that improve the lives of people living near projects through the Clough Foundation.

## UNDERGROUND MINING

- + Cementation Canada & USA:
  - Respond to requirement for First Nation business partnerships.
  - Continue to partner with local companies in South America and in Mexico.
  - Address the results of diversity and inclusion survey through the diversity and inclusion working group.
  - Leverage the New Miner programme to train indigenous employees.
- + Murray & Roberts Cementation:
  - Continue to meet BBBEE targets, including those contractually required by clients under the revised Mining Charter.
  - Employ and train local workers on projects.
  - Procure from preferential suppliers.
  - Invest in local community development.
  - Apply employee relations framework, especially in maintaining constructive union relationships.
  - Establish local partnerships on mining projects in sub-Saharan Africa.
- + RUC Cementation Mining:
  - Implement diversity policy.
  - Recruit locally on international projects.

## POWER &amp; WATER

- + Maintain strong BBBEE credentials to access opportunities in South Africa:
  - Build on improvement in black representation in senior, middle and junior management levels.
  - Initiatives in place to achieve BBBEE Level 2 in FY2020.
- + Establish BBBEE partnerships in power maintenance, transmission and distribution and water.
- + Continue to work closely with clients, local community forums and leaders to manage expectations around economic and employment investment.
- + Develop local partnerships in East and West Africa to access new markets and sectors to deliver growth.



**SURESH KANA / GROUP CHAIRMAN**

# CHAIRMAN'S STATEMENT

**“Taking *Engineered Excellence* from a slogan to a philosophy that pervades decisions and actions throughout the Group, depends largely on the calibre and commitment of Group leadership.**

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## Introduction

The reclassification in March 2017 from the heavy construction to the diversified industrial subsector of the JSE, marked the beginning of a new development trajectory for the Murray & Roberts Group as a multinational provider of specialised engineering and construction services, primarily in the metals and minerals, oil and gas and power and water market sectors.

This strategic definition is an effective response to market cyclicity, and the plan on which the Group's resilience and growth depends. It is gratifying to reflect on the progress made in the last year to further diversify the Group's international presence and to enhance its core market segments positioning, as well as the progress made to achieve strategic positions in selected high-growth complementary market sectors. Most pleasing has been the Group's outstanding safety performance, with no fatal incidents and a world-class lost-time injury frequency rate. This was achieved with a project portfolio of more than 100 projects around the world and is a remarkable outcome.

The Independent Board has been at the forefront of the engagement with ATON, shareholders and regulators, in respect of ATON's mandatory offer to acquire up to 100% of the issued ordinary shares of Murray & Roberts it does not already own. Developments in the year were mostly related to the regulatory approval processes. It is worth mentioning that the Independent Board has enjoyed a more positive rapport with ATON as a 44% shareholder in the Group, since the appointment of its new chief executive officer, Georg Denoke,

in July last year. Following the recommendation by the Competition Commission that the merger involving ATON and Murray & Roberts be prohibited, the parties settled a timetable for contested proceedings to be conducted before the Competition Tribunal. The hearing of the matter will take place in December 2019 and January 2020.

The Independent Board has, through the appointed independent expert, BDO Corporate Finance Proprietary Limited, refreshed the Group's valuation twice since the Group's interim results in March 2019, taking into account the latest market developments. The Independent Board maintains its view that a fair value price range for control of Murray & Roberts is between ZAR20.00 and ZAR22.00 per ordinary share. Further detail on the Independent Board and its duties is disclosed in the governance report on page 65.

The Group's financial performance in the year was in line with expectations. A record performance from the Underground Mining platform was offset by disappointing financial results from the Oil & Gas and Power & Water platforms, which continued to experience weak market conditions and suffered substantial losses on a few projects in highly competitive markets.

With the building blocks of the *New Strategic Future* plan firmly in place and a generally more positive medium-term outlook across the Group's market sectors, reflected in a much-improved order book, the Board expects an improvement in shareholder value creation in the coming years.



## Engineered Excellence

The Group's philosophy of *Engineered Excellence* underpins its competitiveness and reputation as a well-governed, values-driven and ethical organisation. This approach, not only to project delivery, but across all activities – including how the Board discharges its fiduciary responsibilities – is achieved through continual improvement of the standards, systems, practices and reporting that brings this philosophy to life.

Taking *Engineered Excellence* from a slogan to a philosophy that pervades decisions and actions throughout the Group, depends largely on the calibre and commitment of its leadership. Culture, whether it pertains to specific aspects such as health and safety or more broadly to ethical conduct, must be exemplified by leaders. The Group's high standards, evident in all businesses and projects, demonstrate that the Group's value system is reflective of the attraction, appointment and succession of quality leaders who are responsible for implementing Group strategy.

The philosophy is best displayed by the extent to which the Group's health and safety culture has matured. A confluence of initiatives contributed to this progress, including the formulation of a Group HSE Framework that defines policies, minimum standards, reporting and assurance processes, personal commitment and accountability, and the sharing and implementation of lessons learnt across the Group. An important initiative in the year was to review the effectiveness of this framework, which included a culture survey on a sample of projects across the business platforms. We are encouraged by the outcome of this review, which indicates that the Group's safety culture continues to mature. Our strength is leadership commitment to safety, with employees feeling there is genuine care for their safety and that they are empowered to stop work in unsafe circumstances. Opportunities to improve include further streamlining of the operating standards, change management, training, contractor safety performance and recognising safety achievements. Furthermore, innovative approaches are considered and applied to drive continual improvement. A recent example is the Neuroleadership programme, which applies neuroscience to safety leadership, aimed at improving leadership engagement skills and employee involvement in health and safety practices.

*Engineered Excellence* also requires effective risk management that responds to changes in the Group's risk profile. Stronger oversight processes have been put in place to mitigate the risk associated with an increasing proportion of fixed-price commercial arrangements in the Group's order book. With an emerging trend of clients shifting more risk towards contractors, in certain instances also by requiring project funding solutions and possible equity participation, the Board is comfortable that the necessary oversight is in place to assess all opportunities.

The fourth industrial revolution is a multi-faceted concept that impacts every company differently depending on its business model. The Board is cognisant of the profound opportunities

that digitalisation heralds for operational excellence, based on the pockets of technological advancement that already exist within the Group as well as developments in other sectors. To develop an understanding of the likely impact on the Group, the Board has commissioned a digital maturity assessment, which will provide insight and establish a baseline for the development and measurement of a consolidated digital strategy. *Engineered Excellence* will inform our approach – carefully researched assumptions, detailed planning and systematic execution to ensure that the intended outcomes are achieved.

## Legitimacy

The Group has a wide international footprint and its reputation is in effect determined by regional businesses executing local projects. Legitimacy at national and community levels is critical, not only in managing the impact of local dynamics on project delivery but also on the Group's credibility as an ethical and responsible multinational organisation. This extends to ensuring that local contracting partners align to the Group's standards in terms of project delivery imperatives such as managing health and safety risks, as well as those pertaining to compliance, conduct and reputation.

The Group's diversity policy, introduced last year, formalises our belief that diversity of race, gender, skills and perspectives can improve performance. It guides the Group's businesses in their responses to the specific diversity priorities in the countries where they operate. Board targets for gender and race diversity were met last year, with Board composition at 50% black and 30% female directors. For businesses in South Africa, succession planning has been aligned to employment equity objectives.

The emphasis on Board succession planning over several years has resulted in a well-constituted and diverse Board, with collective expertise relevant to the Group's strategy and the macroeconomic and socioeconomic realities within its markets. No directors were appointed to, or resigned from, the Board in the year due to the ATON mandatory offer and resulting restrictions to director changes. Self-assessments on Board and committee effectiveness in the year were positive overall. The committees are working well and in an integrated way to ensure that all relevant considerations are brought to bear on our deliberations and decisions.

Ethical leadership is inculcated in the Group through policies, procedures and a Code of Conduct. Mechanisms to ensure adherence with the code include a declaration that all executives involved in preparing and authorising project tenders must sign. They declare that they have not committed and are unaware of anyone else affiliated with the tender having directly or indirectly committed any unethical, unlawful or uncompetitive practice in the preparation and submission of the tender. The declaration is binding throughout the project life cycle. Similarly, all Group executives make written declarations twice a year, also in relation to competition law compliance.



The Group is recognised for its ability to recruit employees from local communities in line with localisation requirements, in many countries with different cultures, and to train them to meet the Group's high expectations for safety and productivity. It is worth recording the extensive training and development provided to employees from local communities during the construction of the Medupi and Kusile power station projects in South Africa, with approximately 1 900 artisans trained to date. It is concerning that due to the weak local economic environment only a few of these artisans are likely to find employment on completion of these projects, despite their skills and experience. During the year, as a result of the South African Government's commitment to provide free higher education, it was decided to shift the focus of the South African bursary programme from providing support for tertiary study to technical skills training.

Retrenchments are an unfortunate reality in a project business. However, the process of right-sizing for lower future revenue potential in the Power & Water platform has been carefully considered to ensure that the platform remains capacitated to pursue its strategy. Retrenchments have been dealt with in a fair and responsible manner.

By way of an update on the Department of Labour's public inquiry to determine the cause of the tragic incident that occurred in October 2015 at our Grayston temporary works project in Sandton, Johannesburg; the inquiry was concluded in September 2018 and we await the findings. It is our sincere hope that this matter will be resolved soon to bring some closure to everyone affected.

## Expectations and appreciation

The IMF has revised its forecast for global economic growth in 2020 to 3.5%, marginally down from its earlier forecast of 3.6%. Downside risks to the global economy and therefore also to growth prospects in the Group's markets include escalation in trade and technology tensions between the USA and China, a no-deal Brexit and geopolitical volatility specifically in the Middle East. These factors could weaken confidence, discourage investment and dislocate global supply chains, slowing global growth.

The strategic maturity of the Underground Mining platform, with its leading regional positions and exposure to a diverse range of commodity types, should enable it to maintain its earnings at current high levels. The Oil & Gas platform's tactical shift into high-growth infrastructure and mining markets in Australasia, and its newly established presence in the USA, should support a return to profitability in the coming year. With the upswing in capital expenditure in its core markets still envisioned from 2022, the platform is expected to

accelerate earnings recovery in the medium term, especially given the buoyant USA petrochemicals market. The sustainability of the Power & Water platform is predominantly dependant on investment in its core market sectors in South Africa, although it is also focused on expanding in sub-Saharan Africa. Strategically, the platform has taken all the right steps to position itself in market segments with growth potential, such as the power transmission and distribution sector. The South African Government's intention to unbundle the national power utility, Eskom, into three divisions focused on generation, transmission and distribution, combined with the much-needed investment in South Africa's water infrastructure, should open up opportunities for this platform.

As a multinational Group headquartered in South Africa, and with businesses that depend on investment in the South African economy, the Board welcomes the intentions of the newly elected administration to revitalise an ailing local economy. However, we are under no illusions about the difficulties that lie ahead, especially given the unpopular policy choices needed to achieve economic growth in excess of population growth. In particular, real progress must be made in the fight against corruption, given its profound implications for the country's credibility as an investment destination. Besides the staggering cost of governance failure and the pressure it places on government spending, impunity for wrongdoers poses a wider threat to political, economic and social stability. Whereas the Board welcomes the transparency of the commissions of inquiry instituted by the President, a step-change in accountability depends on rebuilding the key institutions that spearhead the fight against corruption and the successful prosecution of those in the public and private sectors found to be corrupt. These complicated imperatives will take time and the commitment of appropriate resources.

The Group's strategy is well defined and implementation is gathering momentum. The outlook for an improvement in the Group's performance is encouraging. With an order book nearing record levels, gearing at a comfortable level and a robust cash position, the Group is well positioned to pursue its growth plans. *Engineered Excellence*, underpinned by continuous improvement and innovative approaches, will drive the Group's competitiveness, resilience and reputation – the cornerstones of sustainable value creation.

On behalf of the Board, I convey our thanks to all our stakeholders, specifically our shareholders for their support, and to the Group's executive teams and employees for their extraordinary commitment to delivering excellence.

**SURESH KANA**

**Group chairman**







# GROUP CHIEF EXECUTIVE'S AND FINANCIAL DIRECTOR'S REPORT



HENRY LAAS / GROUP CHIEF EXECUTIVE

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DANIËL GROBLER / GROUP FINANCIAL DIRECTOR

**The Group's ability to sustainably deliver profitability relies on achieving strategic maturity. This entails diversifying our exposure across the natural resources market sectors in which we operate, across selected geographic regions with different market dynamics, and across the different phases of the engineering and construction project life cycle.**

## Introduction

Implementation of the *New Strategic Future* plan gathered momentum in the year, with our business platforms making headway in consolidating their strategic positions, competitive advantages and growth prospects. A quality order book of R46,8 billion and near orders of R14,4 billion, supports confidence that the Group's strategy is beginning to deliver.

The Underground Mining platform delivered an outstanding performance in a buoyant commodities environment. The Oil & Gas platform endured a difficult year. Several of its large projects in the Australasian LNG market came to an end and potential new projects to substitute its income were delayed. The platform has secured a strong order book in the Australian infrastructure market, providing a good base for the short to medium term. In the Power & Water platform, a lack of project opportunities in the South African market has hampered its ability to rebuild its order book as the Medupi and Kusile power station projects have wound down. In both these platforms, extensive effort has gone into repositioning them for opportunities in complementary markets, although project wins have not come fast enough to stem the decline in revenues during the past year.

Weak market conditions for the Oil & Gas and Power & Water platforms weighed heavily on the Group's profitability in the year under review. However, the strategic acquisitions in each of the platforms have further diversified our market position, strengthening the Group's resilience and ability to withstand future market cyclicality.

The policies, systems and processes that manifest the philosophy of *Engineered Excellence* throughout the Group are entrenched and supported by a culture of continuous improvement. The Group delivered an outstanding safety performance and recorded zero fatalities during the year, a first in the history of Murray & Roberts. The financial losses experienced on a few of our projects were a setback and strained our financial performance.

## Financial performance

The Group reported revenue from continuing operations of R20,2 billion (FY2018: R21,8 billion). Attributable earnings increased by 26% to R337 million (FY2018: R267 million). Diluted continuing HEPS decreased by 10% to 101 cents (FY2018: 112 cents). Cash, net of debt, remained strong at R1,8 billion (30 June 2018: R2 billion).

The order book for continuing operations increased by 55% to R46,8 billion (FY2018: R30,1 billion).

The Underground Mining platform delivered an outstanding result by achieving a record operating profit of R814 million (FY2018: R471 million) in a buoyant market. The business, which is well positioned across all regions and in the context of a recovery in commodity markets, has done well to capitalise fully on its growth potential and substantially growing its regional market shares. The platform order book remains strong at R22,8 billion (FY2018: R22,1 billion).

The Oil & Gas platform delivered an operating loss of R98 million (FY2018: R209 million operating profit) in a competitive market. The loss is primarily due to a delay in the progressing and awarding of new projects resulting in insufficient project earnings to cover overhead costs, and losses incurred on two, now largely completed projects. Considering the large and growing order book, the platform is expected to return to profitability in FY2020 and to grow earnings steadily thereafter.

The Power & Water platform delivered an operating loss of R32 million (FY2018: R134 million operating profit). The loss is due to reducing levels of revenue with limited new project opportunities in South Africa, as well as a loss incurred on a project for Sasol, which is in dispute. The platform is strategically positioned to target maintenance contracts for Eskom, projects in transmission and distribution, renewable energy and new fuel storage terminals, as well as wastewater treatment, which should provide complementary market opportunities.

The Group's investment in BCC continues to yield strong cash returns of 18% after tax. The current year earnings included a R306 million (FY2018: R277 million) fair value adjustment.

In FY2016 the Board decided to close the business in the Middle East. The final four projects have been completed during the year and the business recorded an operating loss of R56 million (FY2018: R34 million operating loss), primarily due to ongoing legal costs and a small overhead cost. Going forward, this business is expected to be accounted for as a discontinued operation.

Unfortunately, the arbitration outcome of the Dubai Airport claim was inconclusive and the claims and counter claims will have to be finally settled by agreement between the parties. Current deliberations with our legal team are focused on defining the best possible way forward in determining the final account for this project.

Capital expenditure for the year was R816 million (FY2018: R436 million) of which R775 million (FY2018: R358 million) was for expansion and R41 million (FY2018: R78 million) for replacement. The capital expenditure was largely incurred in the Underground Mining platform.

Net financing costs marginally increased to R53 million (FY2018: R41 million).

The high effective taxation rate of 40% (FY2018: 36%) was mainly due to withholding tax in foreign jurisdictions, as well as losses incurred in jurisdictions where a deferred tax asset cannot be recognised.

Losses from equity accounted investments reflects marginal losses from joint ventures. The prior year reflected a profit of R22 million earned in the Bombela Operating Company, which the Group divested from at the end of FY2018.

The loss from discontinued operations was R91 million (FY2018: R278 million). The loss mainly relates to final costs associated with the disposal of Genrec and the infrastructure and buildings businesses.

## Strategic performance

### Strengthening the growth potential of our business platforms

The Group's ability to sustainably deliver profitability relies on it achieving strategic maturity. This requires diversifying our exposure across the natural resources market sectors in which we operate, across selected geographic regions with different market dynamics, and across the different phases of the engineering and construction project life cycle. Furthermore, to protect revenues during protracted down-cycles in natural resources markets, and without diluting core market focus in anticipation of an upturn, our business platforms will leverage their competencies to secure work in selected complementary markets.

This strategic flexibility is critical to the near-term recovery in earnings in the Oil & Gas platform. Considerable work over the last two years has positioned the platform in the buoyant Australian infrastructure and metals and minerals sectors, with the ability to deliver complex projects differentiating the platform in these markets. Its credibility as a tier-one contractor was made evident in the award of the Snowy Hydro-Electric scheme to the Future Generation Joint Venture, in which the platform has a 35% stake. This AU\$5 billion mega project is to be delivered over five years. The metals and minerals sector in Australia promises to provide a large and reliable pipeline of surface infrastructure work, as mining companies seek to maintain production output by extending existing or developing new mines. Importantly, the platform is maintaining its capability to pursue opportunities in its core market sector, with signs of the recovery in capital expenditure in the global oil and gas market becoming more persuasive.



A strategic milestone in the internationalisation of the Oil & Gas platform was the acquisition of Saulsbury's Gulf Coast downstream and chemical EPC division, for US\$8,5 million. Rebranded as Clough USA, this has given the platform a relatively low-risk entry to the fast-growing gas and petrochemical market in the USA. This business has a good track record and is based in Houston, Texas. Early focus on building a project pipeline has been successful with the award in August 2019 (thus not included in the June FY2019 order book) of a US\$620 million greenfield project in the USA. The multi-year project scope includes the engineering, construction and commissioning of a petrochemical facility. Clough USA's longer-term growth will entail expanding its service offering and market presence by leveraging synergies across the platform's international footprint. For management purposes, CH•IV in the USA and Clough Enercore in Canada will be consolidated with Clough USA.

In the context of a recovery in commodity markets, the Underground Mining platform has done well to capitalise fully on its growth potential, outperforming its peers and substantially growing its regional market shares. As the largest contractor in Africa and North America, and among the top three in Australasia, the Underground Mining platform's organic growth potential is limited. However, during the year we acquired Terra Nova Technologies (TNT), an international provider of material handling solutions for underground and aboveground mines, for US\$38 million. Based in the USA, TNT adds a new capability to the platform's service offering, diversifying its revenue and risk profile. The business is expected to grow meaningfully in the years ahead, benefitting from the platform's strong client relationships and global footprint.

A further two, small but strategic acquisitions were completed in this platform. In South Africa, we established a 49% JV called Boipelo Mining Contractors, a business providing contract mining services to coal mines. This further extends the platform's contract mining exposure. As a less cyclical source of revenue, we aim to grow contract mining to some 50% of the platform's revenue in the medium term. In Australia, we took a 30% stake in Insig Technologies, a specialist in the application of automation technology. This partnership is expected to provide significant competitive advantage in our contract mining operations, especially in reducing safety risk and improving productivity.

The hard reality for the Power & Water platform is that as the Medupi and Kusile power station projects come to an end, there currently is insufficient investment in its core markets in South Africa to maintain its earnings potential. As such, it completed another major restructuring to right-size the business for weak market conditions and smaller project opportunities. Significant project flow is required to secure the platform's sustainability, which depends largely on accelerated

investment in the power and water sectors in South Africa in the near term. The platform must also convert its market engagement efforts into project wins, but this is often subject to flawed public sector procurement procedures. Despite these significant challenges, the platform has done extensive work to gain a foothold in its core market segments, as well as the mining, oil and gas, pulp and paper, and chemical industries.

The R38 million acquisition of OptiPower Projects has given the Power & Water platform the capability to undertake work in the transmission, distribution and substation sub-sectors of the power market. We see substantial growth potential in these segments in the next few years in both South Africa and sub-Saharan Africa. OptiPower Projects provides turnkey construction of overhead power transmission lines and substations, with extensive experience in Southern Africa. This acquired capability, combined with the Group's capacity to undertake large projects, will enable it to offer EPC turnkey project and funding solutions, increasingly the preferred contracting model for utilities across the continent. Besides this positive development, the platform has established joint ventures to secure repair and maintenance work from Eskom, and has been awarded two projects in complementary markets.

Considering the country's aging municipal water infrastructure and vulnerability to water scarcity, the water sector in South Africa must inevitably present significant opportunities. This, however, will require a far more decisive response from the public sector than we have seen so far. Although the Organica Water resource recovery demonstration plant achieved good results in its one-year test cycle, the interest in this innovative water treatment technology has not converted into uptake. In the industrial water sector, the platform has partnered with technology providers that specialise in the treatment of effluent and it continues to seek suitable empowerment partners to unlock public private partnerships in municipal water treatment.

### **Deepening Engineered Excellence for competitive advantage**

The ability of our business platforms to realise their growth potential rests ultimately on *Engineered Excellence*. This philosophy informs our interrelated aspirations to be a contractor and an employer of choice; a provider of specialist services that is clearly differentiated by excellence, not only in project delivery but in every aspect of how we operate.

Safety, in this respect, is a main priority. All business platforms have adopted the Group Safety Framework and compliance is reviewed on an ongoing basis. Platform leadership are expected to demonstrate consistent commitment, vigilance and innovation to avoid plateaus in performance. Zero Harm has been achieved by several projects across the Group, despite considerable safety challenges and substantial hours worked.

The Underground Mining platform achieved a 43% improvement in LTIFR and sustained improvement in TRCR. In the year ahead, it will focus on reducing safety risk through pre-work hazard identification, risk assessment and work planning and ensuring that all critical controls are consistently applied. In the Oil & Gas platform, a focus on lead indicators, real-time reporting and maintaining high engagement among employees supported another world-class safety performance. The Power & Water platform piloted a Neuroleadership programme at a project in Polokwane, with training delivered and implementation scheduled for FY2020. In the year ahead, attention will be given to managing the higher safety risk associated with significant growth in the Group's order book. A key focus in integrating the acquired businesses will be to implement the initiatives and practices that have proven most effective in deepening the Group's safety culture.

The Group continues to improve and implement best people practices. Its specialist service offerings, demonstrated in a remarkable profile of projects around the world, are a feature of our value proposition to our people. Career advancement opportunities through job experience on high-profile projects are supported by extensive skills development and coaching, and the Group is recognised by clients for setting the benchmark in training and developing employees from local communities. Our investment in being an employer of choice underpins our ability to effectively resource our projects. This extends to the unfortunate reality of retrenchments to right-size operations during market downturns and project demobilisation at completion, which are dealt with responsibly and consultatively.

Another critical aspect of *Engineered Excellence* is the maturity of the Group's risk recognition and management systems. However, the loss-making projects in the year were a harsh reminder that market dynamics and the many variables at play make it impossible to eliminate all project risk. This is especially the case where tenders are awarded on a competitive basis, in which price is of primary importance and negotiating power vests in the hands of clients. With limited opportunity to negotiate favourable commercial terms or price sufficiently for assessed risk, there is a narrow margin for error in project implementation. Where risk drivers are not within our control, we endeavour to limit the risk of potential project losses through appropriate commercial arrangements.

Key to de-risking our projects to the extent possible in highly competitive markets is that we are a learning organisation. Our lessons learnt and contracting principles schedules are regularly updated in response to specific issues, which in turn inform the new project mandates that guide platforms. More broadly, we anticipate shifts in the Group's opportunity and risk profile and amend these frameworks accordingly. A current instance is the higher proportion of fixed-price EPC contracts in the Group's order book. To mitigate this risk, a

new Group contracting standard has been implemented, which requires additional levels of oversight in tender processes, to mitigate the higher project risk associated with this type of commercial arrangement. Another development has been to make cost-reimbursable commercial arrangements a condition of taking over partly implemented work from contractors that have failed on a project.

Being recognised by clients as a specialist in the services we offer, opens the door for early involvement in project design. This enables us to propose solutions that improve project constructability, which mitigates risk and enhances delivery. As the most strategically mature business, the Underground Mining platform is being engaged during the project development phase more frequently and has had instances where finance providers have made the platform's involvement a condition of funding. This degree of recognised specialism and competitive edge is the strategic outcome we are working towards in all our platforms.

Since we identified it as a strategic driver last year, there is heightened awareness of technology enabling a step-change in competitiveness and productivity. We are formalising our approach to digitalisation, and will undertake a digital readiness audit to inform the development of a strategy for technology investment. The audit will also assess the extent to which the existing digital capabilities in the Group can be transferred and leveraged across the platforms.

## Delivering enhanced shareholder value

The intricate process of closing the business in the Middle East is reaching its final stage, after the last four projects were completed during the year. Unfortunately, the arbitration outcome of the Dubai Airport claim was inconclusive and the claims and counter claims will have to be settled by agreement between the parties. Current deliberations with our legal team are focused on finding the best possible way forward in determining the final account on this project. As part of the year-end audit and considering the arbitration award, there was an extensive review of our accounting position on the Dubai Airport project and it was concluded that no material adjustments were required.

The Group's financial position, even after a number of years of subdued profits, is robust and sufficient to fund our organic and acquisitive growth plans. The Group is in a strong cash position and debt is within our targeted range. We do not expect to make further acquisitions in the next twelve months, although we will continue to identify and assess potential targets, specifically in the mining sector. An important focus in the coming year will be to grow the order books of our newly acquired businesses. Cost management will continue to be a focus and all platforms are targeting overhead costs of about 5% of revenue, through the cycle.

With several projects secured late in the year under review, the Oil & Gas platform is well positioned for opportunities in the Australian infrastructure and mining markets. In the oil and gas sector there are signs of a medium-term recovery. The International Energy Agency expects a 10% rise in oil consumption, mainly for petrochemicals, and demand for natural gas to grow sharply by 45% in the next decade. Natural gas is forecast to surpass coal to become the second-largest source of fuel worldwide in the same period. New capacity in North America is expected to show the greatest capital expenditure growth. This bodes well for our new business in that market, which secured a US\$620 million project within months of the acquisition. The platform is targeting LNG projects in Australia, Canada, USA, Mozambique, Kazakhstan and PNG, with meaningful growth anticipated in the medium term as global energy producers move to meet demand. The platform is poised to return to profitability in the coming year – supported by its strong order book – and to grow earnings steadily thereafter.

Capital expenditure in the mining and mining services markets is expected to level off over the next three years. Although we believe there is still considerable opportunity for the Underground Mining platform, we expect earnings to show modest growth from current levels. Accelerating innovation is a key strategic theme for the platform, to ensure that it stays ahead of its competition and retains its leading position. However, market share gains will be incremental and organic growth within the platform's existing capabilities and regions is not expected to yield the required returns. As such, the value-accretive potential of an acquisition in open cast mining is under consideration. Certain targets have been identified, given the expectation that future mining capital investment will be weighted towards this mining method. Adding this capability would lift the proportion of platform revenue generated from production or contract mining, thereby reducing vulnerability to commodity market cycles. However, these benefits will need to be weighed up against the capital intensity and lower profit margins associated with open cast contract mining.

For the Power & Water platform, the claims resolution and commercial close-out on the Medupi and Kusile power station projects is likely to be complicated and protracted. However, the accounting position on these projects is considered to be prudent and risk provisions to be adequate. The sustainability of this platform is dependent on the level of investment in the

South African economy, which has been disappointing in recent years. Strategically, the platform is positioned well for the future, but there is a lack of project opportunity in the power and water sectors. It is essential that the platform secures further repair and maintenance projects from Eskom on its aging fleet of power stations. Investment in renewable energy and in fuel storage terminals for the clean fuels programme should provide complementary market opportunities in South Africa. We expect strong growth and sizeable projects in the transmission and distribution sub-sector in the short to medium term, for which OptiPower is well positioned. The platform is focused on converting its pipeline of opportunities into significant project wins, but it may take time for it to deliver results that match our expectations of its earnings potential.

Another way we diversify our revenue sources to counter market cyclicity is to participate in long-term investment opportunities that generate constant income at attractive rates of return, either as a project co-developer or operator. In particular, we will consider transmission project development opportunities in sub-Saharan Africa, which may unlock opportunities for the Power & Water platform to construct these projects.

We remain optimistic about the longer-term outlook for natural resources markets and our selected complementary markets to bring some balance to the impact of cyclicity. Besides the usual cycles, we expect no major structural shifts in our markets that would negatively impact demand for our services. Subject to unforeseen dynamics in our market sectors due to global economic or geopolitical events, we expect to meet our investment aspirations by 2021, as our strategic plans in each of our platforms come to fruition. Organic growth, at a Group level, is expected to be slow, however, mergers and acquisitions will continue to support our growth aspirations.

We thank the Board, our executive team and all our employees around the world. Your collective effort is moving the Group towards the outcomes envisaged in our *New Strategic Future* plan.

**HENRY LAAS**  
Group chief executive

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Group financial director



