Conference call transcript

29 June 2015

INVESTOR DAY

Ed Jardim
Good morning ladies and gentlemen. My name is Ed Jardim. I'm the Group Communications Executive at Murray & Roberts. Welcome to the 2015 investor day. I realise we have got a small enough room that we don't need microphones, but we are live on a webcast this morning. And I think we've just got the conference call working as well. So for the purposes of the Q&A after each presentation if you could please just use the microphone so everybody on the webcast and on the calls can hear you as well.

Just from a safety and housekeeping point of view, in case of an emergency an audible alarm will sound and we would like you to evacuate the building please. You've got two evacuation routes off of this floor. The first is out this door to my left and left again. There is an emergency evacuation door there. You can break the glass. The door will release. Please make your way down the stairs to the ground floor, out and around the building and to the public parking space across from the main building. That is the emergency assembly point. Your second exit off this floor is to my left through those doors and out to the right to the lift lobby. There is a set of stairs on either side of the lifts. Please make your way down the stairs to the ground floor, out the main entrance which you have come through this morning and across the road to the public parking area for the emergency assembly point.

The bathrooms are unisex. They are just out this door to the left and left again. And then just quickly on the programme for today, we will have five presentations. The first presentation is by our Chief Executive, Henry Laas, for a group overview. That will be followed by Jerome Govender, the platform CO for Infrastructure & Building, 30 minutes, followed by a ten minute Q&A, followed by Orrie Fenn, platform CEO for Underground Mining, followed by Steve Harrison in an acting role for Power & Water, and finally Kevin Gallagher, the platform CEO for Oil & Gas. As mentioned there will be a ten minute Q&A after each presentation which I will facilitate. We will start with questions on the floor followed by the webcast and the call, if any. With that I would like to hand over to our CEO to get us started. Thank you.

Henry Laas
Thank you, Ed. Ladies and gentlemen, welcome. Also welcome to our guests on the call. It is really nice for me to present to you this morning. I'm glad that a number of you could make it to our building, our facility. I'm really pleased about that. Today is the 29th June and tomorrow is the 30th June. That is the end of our financial year 2015, which means we are going into a closed period and we won't be able to during that closed period to share much with you especially around numbers.

However I would like to start off by giving you some guidance on financial year 2015, especially since trading conditions are extremely tough out there and investors and analysts may be concerned about the state of the sector and what the results will be that the company will be declaring in the not too far future. You will recall that in the previous financial year Murray & Roberts reported continuing headline earnings per share of R2.05. We expect that result for the current financial year will not be too different from what we have reported in the previous reporting period.

Financial year 2015 is the first year since we started with the new strategic plan for the group. And we refer to this as the new strategic future as we implement the strategy under the theme of engineered excellence. The group is structured into four businesses. Each of these businesses provides and engineering and construction service in a specific selected market segment. Our vision is by 2020 to be a diverse, international engineering and construction group that is focussed on the natural resources market segment. To get there by 2020 will take some doing, so there are a few things that we will do from a strategic point of view. But I think we also need a bit of a tailwind. It will be very good if the commodity cycle can start to recover, and we will all be living a lot more comfortably if demand for commodities starts to improve.

We have got an experienced executive team in Murray & Roberts. Presenting with me today is Orrie Fenn, as Ed has told you, Kevin Gallagher and also Jerome Govender. You will see that Frank Saieva that used to be part of the executive team is no longer part of the group. He left us not so long ago. The Power & Water presentation today will be presented by Steve Harrison, Steve in front here. Steve is acting in the platform role as he will be presenting on the Power & Water platform.

We had a choice in Murray & Roberts to either structure the group as a general engineering and construction company in the various geographies, in other words those units presenting a service across all the market segments that we've identified. Or alternatively we could have opted for a client-centric or market segment focussed structure. That is what we have opted for. When you look at the business model on the far left-hand side you will see the platforms, Oil & Gas, Underground Mining, Power & Water, Infrastructure & Building, which means that the companies within the group are structured around a market segment. Now, each of these platforms provides a service across the project value chain starting from detailed engineering all the way through to commissioning and maintenance.

You can see the various geographies that these platforms are focusing on. So there is more than one company within a platform. These platforms focus on a specific market segment. They provide an engineering and construction service in that market segment, and they do it in the geographies where they are targeting their business.

So the project value chain. Murray & Roberts today is still seen as a South African construction company. The reason for that is for a very long time most of our revenue and earnings were earned in the classic construction phase of a project value chain. Now, what you see on the screen there is different phases to a project value chain starting from development all the way through to services. There are different returns and different margins to be earned in each of these phases of the project value chain. So what we would like to do as an organisation is we would like to increase the earnings from the other phases of the value chain as opposed to only classic construction. We are going to reduce the dependency on classic construction not be cutting back on that but by growing the earnings from other parts of the value chain.

There are two reasons we want to do this. First of all it will diversify our risk profile a little bit, because the other phases of the value chain there is less risk than classic construction. But secondly, on any specific project today we are only benefitting predominantly from the construction phase of the development of that project. A single project offers a lot more opportunities for Murray & Roberts as a group because we can benefit from the development phase, we can benefit from the engineering phase, we can benefit from the operations phase and we can benefit from the services phase of that value chain.

Global reach. Murray & Roberts is a global company. I said earlier on today we are still recognised as a South African construction company. We are no longer that. We are international. And from a construction point of view we are not only construction. We are also big in engineering and operations and asset support. Now, we do have a plan. If you look at our global diversification we do have a plan. It is not just a haphazard activity. What we have decided to do is position ourselves in the geographies through a permanent presence through an office and companies in those geographies where we believe that there is a lot of opportunity for the selected market segments that we have identified.

And then we also follow our major clients. If there are clients that undertake work outside of the identified geographies where we have established a permanent presence we will follow those clients on an ad hoc basis or on a project by project basis. The dots represent all the offices that we have across the globe. And the countries which are shaded yellow are where we currently have projects underway. By looking at this map you will see that Murray & Roberts is no longer an African company only. We are an international player, and we do so across the four platforms and the market segments that we have identified as a group.

The international focus area. Two of our platforms we classify as platforms with an international focus. The first is Oil & Gas. If you look at those green circles it shows you where our Oil & Gas business is operating globally. And you can see it is truly an international business. Secondly is the Underground Mining business. You can see the

Underground Mining business is also truly an international business, active in North America, active in South America, Africa, Australia and into Australasia. Our Power & Water business and our Infrastructure & Building businesses are predominantly focussed on the continent of Africa. And as you do know we do have some activity in the Middle East in our Infrastructure & Building platform.

These international platforms, the two that I've just mentioned, in the first half of the current financial year contributed 65% of revenue but 93% of earnings before interest and tax. And that again supports what I've said earlier on. That is that Murray & Roberts today is truly an international group. We are listed in South Africa. We are based in South Africa. But our earnings are predominantly derived from the international markets in which we operate.

The new strategic future. There were six objectives that we've decided on for this phase of Murray & Roberts' plan. And then there are also a number of strategic priorities that we've identified for each of these objectives. Now, all of it ultimately cascades to enhancing shareholder value. That is ultimately what we wish to achieve. Considering the current trading environment, I said earlier on that conditions are tough out there, so one should not expect in the short term to see a material improvement in earnings as a consequence of the strategic initiatives that we will be implementing in the group. But having said that I think it is important to focus on what it is that we wish to achieve.

Grow profitability and cash flow. I think you are familiar with our scenario regarding the major claims. We still have Dubai and the Gautrain claims which have not been resolved. There is major cash potential once these claims are resolved. And we hope to do so within the next two-year period. That for us is significant. It is not something that we are prepared to walk away from, and we will continue to work on these claims until we have closed out the commercial processes and received the cash.

We are also focusing on enhancing our earnings before tax and our return on invested capital employed performances. That for us is important. Secondly, focus on the international resources market sectors. We have identified natural resources as the market we would like to be in. we know that that is a very cyclical environment. However, it is true that as long as you have population growth, as long as you have urbanisation, as long as you have economic growth there will be demand for commodities and there will be demand for natural resources. So from a long-term strategic point of view we believe that it is absolutely the correct decision for us to focus our efforts on the natural resources market sectors.

For that specifically we would like to grow our gas business, our LNG business, our metals and minerals business, and we would also like to grow our power market presence in various parts of our target geographies. And then we would like to enter the industrial water sector. We have done some work in the current financial year to try and establish how best to enter the industrial water space. But as you know these companies are valued at multiples much higher than Murray & Roberts. So to acquire a listed company we believe will be earnings dilutive to our shareholders. Given the current circumstances in the market we have opted not to go for a sizeable acquisition but rather to test this market by undertaking bolt-on acquisitions. We did do one small acquisition in the current financial year, and then another one which we are planning for the new financial year.

We have to diversify the business model into higher margin segments. This is what I explained earlier on. The project value chain. We need to diversify. We need to get a greater contribution at an earnings level from project development, from the engineering phase as well as the operations phase and the maintenance phase of the project value chain.

And then there are two other objectives. I think these objectives are not unique to Murray & Roberts, but they are unique to an organisation which would like to be successful and which are serious about engineered excellence. Project delivery from a commercial and a project management point of view is important. Over the past four years we started to measure within Murray & Roberts the losses that we make on projects. Now, the losses have declined substantially over the past four year. We don't have any history to tell us what those losses were historically. But we believe there is an area that we can improve on, commercial and project management excellence, in order to minimise the impact of loss-making projects on our business. And then enhance the safety performance and diversity of our people. This is important.

As I said all of this cascades into the ultimate objective, and that is to enhance shareholder value. Reposition Murray & Roberts with its brand and its stakeholders. I mentioned earlier that we are seen today still as a South African construction company. We are a lot more than that. It is important that stakeholders understand that. You also see the third bullet there, develop attractive dividend policy. I think the market is asking us more often now what is the dividend policy of Murray & Roberts. We have had a couple of years where we have not paid a dividend, and we started with the dividend at the end of the previous financial year, a full-year dividend. We did not pay an interim in the current year. So the market is asking us, what is Murray & Roberts' dividend policy? Our intention is that by the time we announce our full-year results towards the end of August that we will then at that stage communicate a dividend policy to the market.

Prevailing market sector dynamics. I said earlier on that trading conditions are tough. Having said that we are very excited about the future of each of our platforms, very excited. You will hear the Chief Executive of each of the platforms presenting to you after my introduction. But let me talk about Oil & Gas. The collapse of the oil price sent shivers through the market, and we also felt the impact of that. But we do believe that the oil price will recover from its current low base. But what very few people realise is that there's a unique opportunity opening up in Australasia. Over the past number of years there are seven major LNG projects under construction. I think there are 13 LNG trains which are being built. As soon as these projects come into the commissioning phase and eventually into the operational phase there is a massive market which does not exist today in Australia, a market that will present itself to our Oil & Gas platform, to operate in that brownfields space, in that maintenance space, in that services space once these facilities are producing.

Although the oil price is still weak and there is concern about investment in this sector, it is true that there are certain of these projects that remain very attractive even at the current oil price. In Papua New Guinea there are three major oil & gas players that are thinking about developing greenfields capacity in Papua New Guinea. It will not happen in 2016 – maybe from 2017 onwards – but these are very attractive opportunities and we are positioning ourselves for participation in those opportunities.

New geographies. For us to grow our Oil & Gas business it needs to become more international, it needs to become more global. Up till now it was predominantly Australasia-based. Australasia will continue to play an important part, however we need to grow this business beyond Australasia and to take it international is important. For that reason in the current financial year we have made two small acquisitions, CH4 in the Americas – it actually operates out of Baltimore and Houston – and then Booth Welsh which is a Scottish company that we've acquired. And then we know that the US market and maybe short to medium term and longer term Africa presents significant opportunity in the LNG space. So we are excited about the medium to long-term future of the Oil & Gas platform.

Underground Mining, we had a board meeting last week and I said to the guys we have a bit of a tailwind here. The Underground Mining platform is doing remarkably well at this moment. Why is that so? Because the commodity cycle is still depressed. There is no excitement as far as the commodity cycle is concerned. But we do know that operating mines need to continue to invest in infrastructure. They need to replace infrastructure for those mines to remain low-cost producers, for those mines need to remain competitive. So that is what is happening now. We see a lot of demand coming through for our services for infrastructure replacement work. You will hear from Orrie a little bit later today that a significant portion of our current business activity in Underground Mining is of a brownfields nature.

We also see that our offices in the USA and Canada are becoming increasingly busy to work on tender enquiries. We are very pleased with that. And then there are a number of big opportunities like the York Potash mine in the UK and Oyu Tolgoi in Mongolia. These are two massive projects, but they are not going to happen next year or the year after next. But again we are well positioned and providing services on those projects and we are very excited about that. And then we've announced a couple of weeks ago that we've secured the Kalagadi manganese project for R4.8 billion. I'm not sure whether all the conditions precedent have been fulfilled. Not yet; in a couple of weeks' time. And then we have to mobilise within a three-month period after that. So I would guess by October or November we should be on that mine and we should be producing.

Power & Water, predominantly still dependant on the Medupi and Kusile power stations. But you hear me talk about Power & Water and no longer Energy & Industrial. It was called Energy & Industrial previously. We have changed it to Power & Water because we have moved the African oil & gas scope away from this platform to the Oil & Gas platform and they are remaining with the power and water focus. There is a lot of activity in the renewable space. We think that there is real opportunity for us to at least maintain earnings that we currently get from Medupi and Kusile if we can get going on these renewable projects.

And then finally Infrastructure & Building. We have decided to become a co-developer on the residential building opportunity. That is exciting to us. We also play a part as a co-developer with a South African blue chip financial services firm on a number of opportunities which they have lined up for themselves in Africa. We are not sure what the nuclear prospects are, but I think the nuclear programme will go. I'm not sure how it will be funded and when it will start, but there is lots of talk underway today about the nuclear programme. So for all the platforms in the group medium to long term there are good prospects.

So ladies and gentlemen, I want to wrap up on this presentation just to leave a message that Murray & Roberts is a focussed engineering and construction group in the international space, no longer only a South African player. We believe we have a strong balance sheet post the implementation of our recovery and growth plan. I don't want to be wrong here, but I think our net cash at the end of this financial year should be more than R1 billion, and we are maintaining that position of what we had in the previous reporting period. We believe our strategy is clearly developed now and defined, and we know what to do into the future.

We think our differentiator is the fact that we are focusing on the natural resources market sector and the international diversification that we have as a group. We believe that differentiates us. I spoke to an analyst not so long ago who said to me, but the oil price is down; shouldn't you exit the business? The commodity cycle is still down; shouldn't you exit the mining business? Guys, it's about the long-term plan here. It is about the long-term strategy for the group. Although I say our differentiator is the natural resources market sectors, people may ask but how is it possible considering the commodity cycle? This is a very cyclical business. So yes, commodity cycles are weak at this stage. But I can tell you now it will turn, and when it turns we will be ready for that.

We do expect strong growth to come through in the medium term. We believe our order book is robust considering where we are today. And there is massive upside cash potential from the resolution of our two major claims, Gautrain and the Dubai Airport. Finally, when you look at the forecast upside to the current Murray & Roberts share price which we get from analysts is higher than your local peers. And I think it supports the investment case for people who would like to invest in Murray & Roberts. So thank you very much. This is my introduction. We will take questions a little bit later on after each of the platform presentations. Over to you, Ed.

Ed Jardim
Thank you, Henry. I think let's get straight into it. We can ask Jerome from Infrastructure & Building to please come up. Thanks, Jerome.

Jerome Govender
Good morning everyone. Can you hear me okay? I'm recovering from the tail end of the flu. On Father's Day the previous Sunday my two-year old son decided to give me the flu. I'm just trying to get over it. Just getting into it immediately, some of you have seen this presentation slide before but I thought I would just reiterate it. This represents the platform as it currently stands. When Wayne Van Houten, the platform FD, and I came into the platform just under three years ago one of the things we did immediately was to try to restructure the platform as best we could to reflect market conditions, to take out as much waste as we could, to try to streamline it and make it as simple to operate in the environment as we possibly could. We have done that, and this is our current status.

We have our infrastructure segment that deals with roads, earthworks and heavy civils construction, our open cast mining operation – which is really a small operation within the overall platform – our power business which essentially at the moment is also heavy civils work for Medupi through the civil joint venture, the MPSJV. This is also done both at Medupi and Kusile. That is quite a unique position. A bit more about that later on. Under our buildings business in South Africa we have our Gauteng business, our Western Cape business, Namibia and

Botswana. Although we talk of [unclear] businesses they are really entities that we manage from one central buildings operation with a COO that takes responsibility for all four operations.

Our Middle East operation is run out of Dubai. It is much smaller than it was two years ago. And we made sure that this business is right-sized for that market as well. We have a back office for our shared services with all of the support that we need to be able to manage our platform. One of our key differentiators in this is our client shared service. As I go through the slides you will see a bit more about some of our client capabilities.

Windfarm infrastructure specialists. Now, this is quite important. It is one of our current differentiators. In the windfarm market at the moment we have successfully delivered all of the infrastructure. The Jeffries Bay windfarm has been up and running and has been a really good development opportunity for our client. We are currently working on delivering three other windfarms at the moment, one at Noupoort, Koubab and Louriesfontein. I said that we have a preferred position on a few others. One of them is north of our borders and two of them are in South Africa. Now, a preferred position means that we aren't preferred bidders at all of them. We are preferred bidder on one of them. But preferred position means that we are better placed than others. The kind of work that we do on this is construction bases, the concrete bases, and also roads and supporting infrastructure that allows erection of the towers and its operation.

Shopping centre specialists. This is a little-known fact. In the last 18 months we have delivered most of the shopping centre space in South Africa and in Namibia, seven of these over the last 18 months delivered successfully. A very good investment for our clients. They aren't all in the middle of Sandton and in high-exposure areas, but they have been in areas that our clients know there is value and there is growth. Baywest is in PE. Matlosana is in Matlosana which was the previous Klerksdorp. Dainfern, I'm sure you know where that is. Wonderpark is the shopping centre in the north of Pretoria, as you can see quite significant in its own right. Two major shopping centres in Namibia. And we just completed phase one of the Menlyn Mall.

Now, I think it is fair to say that new shopping centre development in South Africa has come to an end. But what we are seeing is a change into refurbishment. So the refurbishment of existing shopping centres is a trend that will continue. We have just started phase two of the Menlyn reconfiguration, and that is a significant project in its own right.

This is also a lesser-known fact. We are specialists in a technology called concrete sliding. Now, some others may say that they have this capability as well, but we are among the few who actually have the most recent track record in delivering chimneys in South Africa. So we did both chimneys for Medupi and both chimneys for Kusile, both very successful projects in their own right as some of you would have seen when you visited recently. In this space we are currently also well positioned for window one of the coal base load project that will be coming out. There are three bidders at the moment, and we tender to the main contractors for their chimneys.

This just sums up the work that we do under our infrastructure business. Roads, bridges, heavy equipment in order to facilitate that infrastructure. And this is the slide at the bottom showing one of the coldest weeks in South Africa last week. This is Noupoort and this is us working there in snow.

Our Vlakfontein coal mine. We have four major projects like this at the moment in our open cast mining business. I will talk a bit more about our market prospects there in a little while. Cape Town. We built this city. This is the city where we have our biggest and strongest building footprint. Each of the yellow dots represents a building that Murray & Roberts did in the Western Cape. As you can see there is a pretty strong concentration in the CBD and some in the periphery. We have even undertaken some incredible logistical challenges in the building business. Bur what is of more importance to me is that we may have built this city, but we continue to build it.

This is Century City. I don't know if any of you get out there much. I've called it the Century City commercial. It is a mix of offices, hotels, but the anchor is the Century City convention centre, which is going to be direct competition to the Cape Town International Convention Centre. And we are busy with it at the moment. Some of the work that we're doing in the Middle East. We have four smaller projects on the go at the moment, smaller because we don't necessarily want to work on the iconic projects in that area. We are working currently in Qatar, Oman and Abu Dhabi.

These are the key platform matters the way I see it and what I thought would be appropriate to you. The first is after a number of years of losses within the platform the platform has been stable for two consecutive years. And we see that trend continuing. However, as we saw in Henry's presentation the platform remains a small contributor to group earnings. We know that from a market perspective there is over-capacity in all of our geographic locations. So whether it is in South Africa or the Middle East or selected regions within the rest of the African continent there is currently over-capacity in our market. So what does that mean for us? We've got to look at creating our own opportunities, better margin and better risk profile opportunities.

In terms of our value chain diversification strategy we have taken a cautious re-entry in to property development. Henry spoke about the residential development, the residential estates, pitched at a very particular sector of the market in Pretoria. It is over a three-year period and has a value of about R1 billion. We are limiting ourselves to residential at this stage because we are also sensitive to the fact that we don't compete with our existing clients in the buildings market. So we are unlikely in the short to medium term to enter the commercial and the retail space. And we are currently underway with the second residential project negotiation and we hope to have that concluded in this coming week.

On other achievement for ourselves that takes great discipline is improving our overall order book balance. This is between higher-margin infrastructure work and lower-margin building work. So to create control for us to not go hell for leather to secure some of the iconic office developments that are coming out in the middle of Sandton. Our view is that this market is still over-supplied at the moment and we would rather be a bit cautious and get our right balance back between higher margin and lower margin work, and that is that we have done.

We have also been successful in closing out various commercial matters that have dragged on in the platform over the last two years. One of the most significant for us is the commercial resolution of historic issues around the Medupi civil joint venture. Some of you who visited that site with us 18 months ago would be aware of what these issues are. So I'm pleased that they are resolved.

The last point I think is critical not only for ourselves but for everyone in this market, labour volatility remains a concern. When we do get strikes it does impact our platform.

I'm going to skip quite quickly through the following three slides. The first looks at the local South African market and what it is looking like, the second, Africa with a bit of detail, and the third the Middle East. You've got more detail and you can look at it in more detail in your time. The overall view though from these slides just supports that the markets are difficult in these regions and over-capacity exists in these regions, but also that growth in all of these areas – especially South Africa and the Middle East – will continue to be subdued in the short to medium term.

So what is the platform strategy given the market conditions? First of all from a short-term perspective we are focusing on operational excellence. We need to deliver the order book that we have as best we can at the best margin possible. And the only way we will do that is through operational delivery and excellence. So we are focusing less at the moment on external matters and more on internal matters and our internal capability.

From a long-term perspective we are focussing on value chain expansion. So in the medium term these developments that I've spoken about will begin to impact our order book and our results in the medium term, although we have concluded one deal now and we are in the process of concluding our second deal. As time progresses we will look at other value chain diversification opportunities.

This is just an indication of what that value chain looks like. It is consistent with the group view, and Henry has taken you through this to some extent so I'm not going to dwell on this for now. This is just a view that some of you would have seen at the last investor day that we had around our current contracting risk profile. What this basically says is that if we have projects on this end of the spectrum there is high client risk involved and low contractor risk. If you are on this end there is more contractor risk involved. So there are lump sum contracts, re-measurable contracts, and I guess the place that all of us would like to be is here with the cost plus contracts.

With the current market state the way it is there is buyer power in the market. The higher client power is currently dictating a higher level of risk transfer to contractors. This is currently what our order book looks like in in our different regions. However, having said that, there is a little note here under lump sum called design build. This is something we want to get more and more into. We don't mind lump sum projects when we are responsible for the design. So in each of our windfarm projects we deal with the design and the construction. When we have control of the design we are better able to manage the risk around it. So this is a space that we would like to be in a little more.

From an order book perspective at the end of May our order book was R7.3 billion. This is just a breakdown of how that is spent. So buildings is 58% in buildings and the remainder in infrastructure. In the South African environment our public sector order book is 38% and the rest is the private sector. This gives you an indication of what our reliance on the public sector in South Africa is at the moment. And from an inside South Africa and outside South Africa perspective, outside South Africa is 32% and the remainder inside South Africa.

In summary then, the infrastructure and building platform is steady despite the difficult market that we find ourselves in. over the last three years we have pre-empted the difficult market and we have taken pre-emptive steps to make sure that we are the right size for the market and that we have an appropriate cost structure. Our market remains challenging, and therefore we are focussing on operational excellence and delivery in the short term for margin improvement, and value chain diversification for growth in the medium to longer term, primarily through our own development, but as time progresses we will look at other opportunities.

We are currently looking at negotiated projects in Africa as opposed to tender projects in Africa outside of South Africa. And we expect that growth will come from this in the medium term as well. Potential medium-term growth catalysts at the moment as we see it is the Mozambique LNG opportunity. Since preferred bidder status was awarded to CCSJV – that is the [unclear] joint venture as the EPC contractor – we are very well placed for this. Depending on where you play in that value chain the opportunity is either medium term or long term. Because we participate in all of the enabling infrastructure work for us this is a medium-term opportunity. A potential long-term opportunity is the nuclear programme, as Henry has indicated. This is likely to happen. We are not sure who is going to pay for it or how it is going to be financed, but this is likely to happen. And if it does, given the capabilities that I've demonstrated to you earlier on we are well placed for this as well. So thank you.

Ed Jardim
Jerome, thank you very much. I think we can go over to the questions now. Before we start with the questions I believe the phone call line is a bit soft and we're trying to work on that, so apologies for that. Let's start with questions in the room. Can you please wait for the microphone before you start your question just for the guys on the call and on the webcast?

Necessity Ngorima
Hello. Necessity from JP Morgan. I understand the Gautrain project sits in your platform. What timeline do you have for doing the fix if it has to be done? How long do you think it will take? And then if the line has to be shut down what kind of cost would we be looking at?

Jerome Govender
Necessity, the concession for the Gautrain is in our platform. But the claims resolution process because of the significance to the group is handled by Henry and Kobus. Henry, I'm not if you would like to comment on that.

Henry Laas
Necessity, the design is still not complete. We are working with Province on the design, so no final design position has been achieved. Once we achieve final design the final design will have to go through the application to various bodies for the work to commence. We don't think the work is going to start within the next 12 months. Having said that, based on what we currently know, if the work has to be undertaken it will probably be about a two-year programme if it is based on bringing concrete lining into that tunnel. Having said that, we still have a view that the tunnel as it is, is perfectly safe and there is no technical reason why there should be any further work undertaken in the tunnel. So engagement with the provincial government on this matter is continuing, but I cannot see that the construction activity will start within the next 12 month period.

Roy Campbell
Roy Campbell, RMB Morgan Stanley. Two questions please, Jerome. The civil claim for collusion [?], it doesn't go away. Last week or the week before we heard about Sanral wanting to lodge those claims against your company was mentioned as well. Can you tell us what you think your exposure is to those civil claims? Secondly, with regards to your order book mix you said that it is looking like it is a better balance. Your outlook on the private sector and the shopping centres that you showed us, you wonder if that starts getting a bit weak. I wondered if you could discuss your pipeline and what you see over the next couple of years.

Jerome Govender
I think that some of the office and retail developments will slow. And I think that we are already beginning to see that emerge at the moment. Part of our response to that is to look at some of our own developments like I've mentioned. We have classified them as a hybrid between infrastructure and building. So they are not your high-risk and low-margin building projects that you see in the middle of the Sandton CBD or even some of the shopping centres that we do. Because we are co-developers in both of these that we've spoken about we are able to better manage the contract risk and the delivery risk. We see that this will become a more important part of the platform as we develop over the medium term. When it comes to the Competition Commission issue – and I'm going to give Henry the opportunity to speak about that – what I would say as a precursor is that in all of our dealings with Sanral we have always found them quite pragmatic about putting the delivery of infrastructure in South Africa beyond these kinds of things.

Henry Laas
Roy, we are aware of the threat of civil claims. But to date we have not received any claim against us. We have looked at Sanral's statement. We accept that they will be coming after the construction companies that have built some their roads. We are not concerned about civil claims against the group. The Sanral projects that we were implicated in collectively were marginally profitable. So I don't know what the claim for civil damages would be on those because the projects were hardly profitable.

Ed Jardim
Are there any other questions for Jerome? Jerome, thank you very much. The next presentation is by Orrie Fenn, the platform CEO for Underground Mining. Thank you, Orrie.

Orrie Fenn
Good morning. If I gave a title to this presentation it would probably be along the lines of 'Underground mining, an exciting space to be in'. Hopefully I can share some of the detail with you this morning of why we feel that excitement in this particular platform. We are going to look at how we are structured, what services we offer, what we do where. We are going to cover safety, which is key in any industry. In terms of organisational context I will give you an idea of the sort of clients that we deal with, the contract arrangements that we have with those clients, the commodities that we mine for those clients. And I'm going to give you some project highlights. There are quite a few that really demonstrate for each entity in this business the kind of world-class work the company is doing. Very briefly we will look at market context, the prospects going forward which are quite exciting, and then touch on the high-level strategy.

We are one of the world's leading full-service underground mining contractors. What do I mean by full-service? If you look at how we are structured, we have an African business which falls under Murray & Roberts Cementation, and within that sits Murray & Roberts Zambia. We have RUC Cementation. I would refer to that as our Australasian or Australian-based business. And then Cementation Canada which is referred to as CCI, which is Cementation Canada Incorporated. That is the term that we use in the group here. When I talk about CCI it is Cementation Canada, Cementation USA and Cementation South America. So it covers all the Americas.

If you look at the specialist offering we do specialist engineering from concept to final design. We will do feasibility, pre-feasibility, bankability feasible studies on the engineering side. And we have a platform complement of 140 engineers that sits primarily in South Africa and in Canada and the States. Any work that RUC would want to do in this space we would do in the other entities. So we can design anything in terms of the mining space. In terms of mine development we will sink the shaft declines, the ramps, any lateral development, raise bore and ventilation holes, anything that you need to develop a mine this platform can do. And we will equip that mine with services and infrastructure. And then if you ask us to mine the mine we will do that under contract mining. And in some cases we even hoist the ore up to services, as we do at the moment on the coal project. It is not something we normally do. It is something we would consider going forward.

If you look at the global footprint you can see this is the platform's global footprint. It really is a global footprint, and it is the biggest footprint the platform has had to date. If we start on the left-hand side of this slide and look at the Americas we have three offices at the moment in Canada. We are looking at a small bolt-on acquisition at the moment in Vancouver on the project management side. It is a business we think will complement our Canadian or American business. So that will give us an inroad into Vancouver. If you look at Canada we operate mainly in Ontario and we are gaining some traction in Quebec.

We have an office in Salt Lake City in Utah. We work across all four time zones in the States. We work in Nevada, Colorado, Utah, all the way across to the eastern seaboard side, Virginia and Michigan. So we work across the Americas. That business is now the biggest contractor in North America. If you look at Cementation Canada and Cementation USA it is the biggest contractor in North America. We have an office in San Diego. We've got some work going on down there for some small raise boring drills which we have just completed. And we are tendering on work in Brazil and doing some engineering-type work in Brazil. Also Mexico, Nicaragua, Columbia. So if you look at the Americas the footprint is quite large.

If you look at Sub-Saharan Africa, very active. You can see that we operate in most countries in Sub-Sahara. We have an office in Accra. It's a group office that we work out of, but we have quite a well-established office in Kitwe in Zambia where we've got several large projects. That is run by Daniel Grobbelaar. He is a new appointment. He has been in the seat for just over two weeks. He is not here today, he is overseas, but he worked with me on this platform for the last two years and he sat on all the boards of the company. He is very commercially and financially astute, so I think he has been a great addition to the platform.

And if you look at the Australasian part of this business run by a seasoned contractor in Barry Upton. He has done a great job this year in repositioning this business from what was primarily a raise boring business into a more general mining contracting business. And he has done a great job on that. Active in Australia, in Indonesia, in the Philippines. We have just completed our first job in New Zealand. This time last year we were tendering for work in India. If you look at that large block on the top, that's Russia. That is a client, Eurochem. We are doing well with engineering work there. It is our third project. We are establishing a good relationship with Eurochem. We have no payment issues. We get payment within 30 days.

We are the single most active shaft-sinking group in the world outside of China. If you look at some of the projects we are doing, earlier this year in January/February we had 22 shaft projects underway globally. And you see where we operate. In Zambia two very large projects for Mopane Copper, two shafts at Venetia, Impumelelo, two shafts at Impumelelo. We are just finishing and equipping the final shaft there. That project is nearly finished. And so you will see, Australasia, the USA, we are doing quite a lot of work when it comes to shaft sinking. We have a lot of engineering, feasibility and design projects underway. Platreef, that's the Ivanhoe [unclear] up in the eastern limb there. That's a very large project. We did some design work upfront on that project and we have just been recommissioned to do extra design work on one of the shafts. And you will see York Potash. Henry mentioned York Potash. I will come to that a bit later. You will see we are doing engineering work across the globe and a lot of tenders awaiting adjudication in different areas across the globe.

If you look at our credentials when it comes to shaft-sinking, we have sunk the deepest shafts in this country, in the USA and Canada, and what will be the deepest shaft is underway. We are sinking that as well. That's Lucky Friday. And then we've got a tripartite arrangement with Schaftbau and Herrenknecht to market a new generation v-mole shaft borer. And we are working with Anglo American to develop full-face blind shaft boring technology. So that is into the future.

That's the crew down at Resolution. That shaft is over 2km deep in one lift. The platform entities have strong brands. You will see Cementation there at the top. That's Canada. That's the Americas. That's against the backdrop of the Young-Davidson gold mine run by AuRico in northern Ontario. We've had a long-term relationship with AuRico. In the middle you see RUC Cementation. We re-branded this organisation about 18 months ago and I think it has been really instrumental in changing the direction of the business. You will see the work cementation features strongly across the three brands, but we don't impose the Murray & Roberts logo on these entities. They all have their own unique brand in the areas where they operate. And I think that Cementation has become a global brand.

Let's touch on safety. The platform's mantra is 'we build mines safely' and we do everything we can to practise what we preach. We fully support the Murray & Roberts group HSC framework. We have developed on work that was undertaken with DuPont three or four years ago and we have our Stop.Think.Act initiative. So we have a safety framework in Murray & Roberts as good as anything you see anywhere in the world, certainly when it comes to a mining contractor. Our platform in terms of our lagging indicators, total recordable case rates and total injury frequency rate, are below what we call our group targets. And we were heading in February to an LTIF of 1.7 which for a mining company is up with the best. Tragically we did record three fatalities this year, one at Impumelelo in September, one at Synclinorium in April and one at Leeville in March. We lost three of our team members there, David Toli, Tom Greyling and Brian Holmes unfortunately.

The emphasis on safety performance cannot be underestimated. We have been stopped this year. You will see where the safety stoppages were. Obviously when there is a fatality we get shut down. And an interesting one, the last one, Lady Loretta in Australia, we dropped a curve ring during a shaft sinking operation. In Australia and Canada whenever there is an activity there is nobody working below. So there is never anybody's life at danger in this particular incident. But nevertheless we had a seven day stoppage there and that was fully investigated. The cost of those stoppages is quite high.

On the plus side, if you look at RUC's safety record in Indonesia, they have gone over three years without a lost-time injury. They did two months across that company without any injury whatsoever, no medical aid, no first aid, no medical treatment case, which I think is exemplary. That has been instrumental in securing them more work at the expense of the incumbent contractor, which is [unclear].

This is the organisational context. I'm going to go through this quite quickly. We focus not exclusively but primarily on top-tier mining clients. And you see the list of clients that we deal with. Most of them would be household names to you. And the figures there in those specific blocks are the number of years we've had the relationship with the client. The strategy for us is to be involved in the life of mine. Get the foot in the door through the upfront engineering, the shaft construction and development, and then stay there for the life of mine is possible as the preferred contractor.

If you stand back and we touch on some of these projects, mid-tier clients are also important for us. We've got the Lundin project in the USA which is a very fantastic project for the United States team. We have Saracens in Australia. I will touch on that. And then Compass Minerals is an award we won recently in the last quarter. We are rehabilitating two shafts. I will cover that later. And then we've got Northam in this country which is another big one for us this year in terms of signing an extension of the contract that we had.

Jerome showed you this slide. It shows that the balance we have is a lot different to Jerome's. We work from the cost reimbursable contract to the rates contract. We have no lump sum contracts within our business. The size of the bubbles will give you an indication of the size of the order book. You will see that Murray & Roberts Cementation at this stage has got a very large project order book compared to the other entities. For interest, within the three larger Murray & Roberts bubbles Kalagadi would fit in there. The target cost contract is a bit of a hybrid contract. And Northam would fit in there. These are big projects. And then under the rate-based contracts you would find Venetia. I will give you some flavour of what sits where. If you look at RUC, the green, under cost-reimbursable that is Freeport. That is the large Freeport project I will touch on a bit later.

If you look at what the commodities are in this platform you will see that copper and gold are dominant. You will find the Americas a bit of a mixture but with salt featuring very prominently there. That's the Sifto project. If you look at Africa with Kalagadi coming in, which is a manganese project, you will see that manganese features quite strongly there. Interestingly in Africa as of today we have no gold projects within Africa, which is surprising. There is no gold project work currently sitting in the African order book. From a platform basis there is quite a spread, but at the end of the day you fish where the fish are.

This is the Saracen Minerals project, the Karari project in Western Australia. And that headline appeared in the Kalgoorlie Miner, where we have a workshop facility and administration facility in Kalgoorlie. And there was an Australian Stock Exchange announcement in March 2015, a couple of months ago. You can read what they said there. This was unsolicited. This just appeared. And we were thanked for our excellent performance since the project commenced. This project has gone from strength to strength and we've got increased scope in this project that hopefully is going to keep us in for another three or four years. It has been a fantastic project. It has really demonstrated our ability to mine a decline. That is as good as anywhere in the world.

This is the headline that appeared in the Canadian Mining Journal. It's the Sifto project. This is a project that we took a while to land. We put a non-conforming bid into this project. It is quite technically challenging. So we've got a non-conforming bid and it was cost plus. We were awarded the contract on a lump sum turnkey basis which we declined. And we re-submitted the bid. We did some value engineering. And we got awarded the contract again on a lump sum turnkey basis. And we re-submitted the bid, and we have been awarded the project on a cost-reimbursable. So it shows that perseverance and great engineering competency always wins out.

This is Booysendal, a mega mine in the making. This is a Mining Review Africa May headline. Again you will see we are building that mine underground. This is obviously the surface infrastructure. We got this job because of the experience and the relationship we had with Northam.

The world economy is picking up and it will drive commodity demand. And that will be led by China and India. China's growth may be only 7% at the moment but it is still 7% of an increasingly large base over the years. And they will still vacuum or suck up a huge amount of commodities going forward. Mining is a cyclical business, deep troughs and high peaks. Where are we in the cycle? We think that we are coming out of that cycle; certainly from a Murray & Roberts perspective it would appear so. And the commodity cycle will upturn, and that is expected in the medium term. Maybe not next year on a global scale, but certainly in the next two years we hope to see that cyclic turn.

As you see we've got most key commodities represented in this platform in the portfolio, with a large weighting in copper and copper/gold and manganese in RUCC and MRC. We are not concerned about that. We are well positioned in the regions where the current mining activity is. The regions we are in is where the major projects are going to happen going forward. You have seen our global footprint and service offering. Our biggest competitor worldwide is Redpath. We are on a par with Redpath.

These are the prospects and where we are positioned in the construction and operations value chain segments. You can see that we sit in construction and in operations. Operations we class if we are doing a contract mining job as we will be doing at Kalagadi. That is why that percentage is what it is. Booysendal would fit in there, for example. We are trying to increase our planning and engineering part of the value chain. If you look at the greenfields and brownfields, before we signed Kalagadi it looked a lot different. You would have seen a lot more brownfields there. We consider Kalagadi a greenfields project. Although the shaft has been sunk it has never hoisted any ore, so we consider that as a greenfields project. That R4.8 billion has boosted the percentage of greenfields within that segment. In the Americas Cementation Canada are building at the moment a very large twin shaft project in Victoria. It is called the Victoria project in northern Ontario. That is a significant contract, and that is greenfields. So as we land one contract these percentages can vary.

If you look at the growth of our order book… You would have seen the Business Day headline a couple of weeks ago. If you look at the platform order book from June 2014 to June 2015 this year, that is a significant increase in order book. And you will see the order book in terms of the different entities below with Murray & Roberts Cementation at nearly R12 billion leading the way, and some interesting prospects in the pipeline. They are in the pipeline, they are not landed, but it could change this order book quite significantly. Last quarter we managed to land Kalagadi, Goederich and the Freeport ground support contract. This is a large contract at the Grasberg [?] mine in Freeport, Indonesia. They have just extended our services agreement to 2020. And under that master services agreement are several different contracts.

What I've said here is that going forward we expect better margins for the end of this financial year and going forward. And lastly, leveraging the ability to combine entity expertise. We have tendered on quite a few large projects in Africa, and what we have done is combine RUC's service offering with our Murray & Roberts Cementation offering to tender on those jobs in Africa. And that brings the best of both worlds. And we have done that on two or three very large projects recently.

The short to medium-term prospects, I opened this presentation with the word 'exciting'. If you look at Murray & Roberts Cementation we've got the potential work at Venetia going forward and EPL2. That's Lonmin and that will be contract mining. If you look at Africa there are some nice projects at Mopani Copper. We have quoted on a very large project in Ghana, Subika. It is a gold mine. Khomaceau in Botswana, we are on the short list of two for that project. That could be R1 billion. And also then Gita. We are busy tendering in Tanzania. It is probably around R750,000. We are doing that again in conjunction with our Australian colleagues. If I look at the Americas there are signs of market improvement in Canada. We have just done our first raise bore project in Quebec. And if you went back six months we have got a small fleet of four machines there. We have currently got work for two, and we will shortly have work for a third. So the raise boring side of the business is picking up there.

And what we have found there is a huge increase in engineering work load. That is almost a lead indicator for this business. It indicates that projects are starting to move and people are dusting them off, and that's a great sign. Increasing opportunities. Henry mentioned York Potash. York Potash is a 1,500 metre twin-shaft development with a third ventilation shaft and some development associated with that. The team have been working on this since 2012. It is only through the engineering competence of this entity and their perseverance. We put again a non-conforming bid in for this project. The client liked what we put in, and we are now doing some value engineering work on this project as we speak. They have still got to finalise the funding on this project and there are some permitting issues. It is in a national park. But if it goes ahead as Henry mentioned we are well positioned there. This for us would be a $1 billion project.

The Victoria shaft project I touched on earlier, this project was awarded to the client's in-house contractor and subsequently lost by the in-house contractor and won by the Cementation Canada team. It was a single shaft. They are now talking about a twin shaft. We are talking about a couple of billion Rand. We haven't landed it yet. We are finalising the commercials. So I couldn't say hand on heart what the exact scope is at the moment. But it is another large project.

If I look at RUCC they have been continuing to increase their scope of work at Freeport. We've got a complement of 500 at Freeport and that is going to grow in the short term. We have been awarded three contracts under the master services agreement. This has been a great win for IEC. We have just completed our first raise boring contract in the Philippines this year, and the first in New Zealand. We await the recommencement of Oyu Tolgoi. The funding issues between Rio Tinto and the government have been resolved. We were working there and we hope to go back there. That would be another great win for the RUCC business. And the Wafi Golpu is a large gold project in Papua New Guinea and we are working with Clough on a joint bid to try and win that bid. Negotiations have already started on the surface infrastructure in this project. So opportunities in the USA, Canada and Africa in the order book indicate promising early signs of market recovery.

High level strategy. Growth is both organic and acquisition driven. Acquisition at this stage we are only looking at the Americas. That is where the investment is going to go in the short term. That is for the big projects lined up. We are looking at acquisition opportunities at this stage in Canada and the Americas. Having said that, if anything came up in Australia we would look at that as well. But they will be the two focus areas. And you can read on this slide what we are looking at in terms of growth. In terms of South America we've gone in there, we have sorted out. We had a lot of historical issues with a partner that we had there. We have sorted that out. We have not been very successful to date in South America. So the route that we are going at the moment is of strategic partnerships. We've got one in Peru and one in Chile where we're bidding on projects with the help of those partners. They are JV partners. There is no shareholding in any company here. And then if you look at RUC they will continue to expand their mine development service offering and overall further develop that Asia Pacific rim market. So these are the growth opportunities when the market improves. There are signs that it has improved for us. Going forward it looks very exciting.

I’m not going to spend much time on this. We made a small investment in an engineering-led company when we took over four principals of a company called Roberts & Schaeffer. They were owned by KBR. They sat in the same office as us in Utah. And they are also EPC services, so both material handling and processing systems in the surface mining side of the business. So it complements our underground offering. We hired the services of this team about six weeks ago and we just landed our first job with a company called Dynegy. They own 36 power stations across the United States. We have just been awarded our first contract there. So we hope to see some real growth and it is quite exciting as well.

I’m going to finish off with this slide. If you went back and you look at RUC there are two parts of that business now. If you looked at this slide three years ago the colours on this slide would be reversed. It is as simple as that. This business is a mirror image of what it was three years ago. Three years ago RUC was a raise boring company. 80% of its EBIT came out of very high-value raise boring. And that market really tailed off in the last three or four years. But we have managed to develop the other side of that business, the mine development side. And instrumental in there has been the expansion of Freeport. We are looking at quite a strong performance from this side of the business next year. In the last two months we were looking at an utilisation of our raise boring fleet of 18% to 20%. We are now looking at 50% plus.

If you look at Murray & Roberts Cementation it has a geographic split. If you look at three years ago the [unclear] operation was flying and Zambia was very small, really non-existent. We just had the Lubambe contract up there which we have now exited. So Zambia is finding alternatives. We have had our challenges within that operation. If you look at the USA and Canada operation three years ago it contributed very little in terms of EBIT to this platform. And this year it is exactly reversed. If we did all these platforms firing on all cylinders it would be really exciting. And that is really the objective. Thank you. There are some pictures of the guys who actually deliver the value in this platform. Any questions.

Ed Jardim
Any questions for Orrie?

Lamalo Makobela [?]
Thanks Orrie. Lamalo Makobela from Citation Asset Managers [?]. I guess my question is just on Kalagadi specifically. It is quite sizeable for your business. My understanding is it is a much more marginal manganese operation and what I wanted to know is what is your confidence around your ability to deliver to spec. and how technically challenging would you say it would be? How would you rate it in terms of technical difficulty? Maybe just another question just more generally, across the group are you not seeing pressure on yourselves to deliver project cost savings for the mining companies and your ability to do so?

Orrie Fenn
Let’s deal with Kalagadi to start. Is it technically challenging? It is the sort of project we do on a regular basis and we have the skills set to do that. So I don’t think there are any technical issues. From a contractual arrangement point of view the margins are slightly lower than you would expect, but we are protected in terms of our contractual arrangement against any downside on this project. So we de-risked that project for ourselves. Were there three parts of that question or just the two? The third question, are we having pressure on margins? We’ve had a couple of instances across the group worldwide where due to the current commodity cycle and where some of the mining companies find themselves we have an approach to say, look, is there any way we can look at maybe in the short term reducing the costs. For example one of those in the Americas was could we extend payment terms. So not a lot of pressure. At the end of the day we will look at it.

Necessity Ngorima
Hi. Necessity from JP Morgan. Just on Kalagadi, when do you expect to start and how long would the ramp-up be until you have reached your optimal volume?

Orrie Fenn

There are some conditions precedent. We hope to get those finished by the middle of the month or the latest the end of July. There is a slow ramp-up on this project. We are not going to rush into this. We are going to make sure that we are fully prepared when we start. There will be a slow ramp-up. I would imagine it would be at least six to nine months before we get any real traction there. So going forward in the year we are not going to expect a huge contribution from the Kalagadi project. But it will then ramp up very quickly. We are not going to rush into this. We will make sure that we're ready.

Unidentified male speaker
Orrie, what is the increase in your order book? Can you talk us through your cash flow profile as well as your capex requirements over the next 12 months?

Orrie Fenn
On the capex side normally the funding for the capex is off balance sheet so we will go the rental route. And that is where the major capex sits for any kit that that we need. If you look at the Venetia project we didn't spend any money on the trackless fleet there. Normally we will get around not having to fund directly the larger capex requirements. If you look at the cash flow normally we work on a system of joint payments. So we will always try and make sure that every project is at least cash neutral.

Ed Jardim
I've got a question for you on the webcast. It is from Mohamed Ibrahim from Perpetua Investment Managers. Please give us a breakdown of your margins across the different underground mining operations, engineering, mine development and contract mining.

Orrie Fenn
The margins on the engineering are always a lot higher because that's the nature of the work. But the percentage of the engineering work is smaller when you look at it from a platform point of view. The margins will vary across the different entities worldwide. You would find that we get a slightly higher margin in the Americas and Australia and Zambia compared to South Africa. But overall that margin will come within the group's modelling aspirations of between 5% and 8%.

Ed Jardim
Thanks, Orrie. One more question on the webcast. It is from Ed Pienaar, Tantalum Capital. He says, hi guys, thanks for the opportunity. Can you please comment on your market position power in the three divisions? Can you lead the market to pricing which is more commensurate with the risks that you take? Current margins imply that there is scant pricing discipline in the industry as a whole.

Orrie Fenn
I don't know how to answer that question. We are the biggest contractor in this space at the moment. We are relatively small compared to our competitors within Australasia. So if you look at us compared to some of the Australasian contractors and Redpath who are also very active there we are relatively small. In an African context we are in Sub-Saharan Africa certainly the leading contractor in terms of size.

Henry Laas
Just to comment on the margin question, the tenders for work [unclear] to achieve a margin of 5% to 7.5%. Orrie is starting to talk about 8%. That is great, Orrie. As we say, that is the range. Normally when the market is tough we should be closer to the bottom end of that range, closer to 5%. And when the market is buoyant we should get closer to the upper end, which is 7.5%. But it is purely a function of the contribution that we get from the various geographic regions. As Orrie has indicated in South Africa the margins are thin. They are better in the US and they are better in Australia because the commercial arrangements are so different. The only reason why the margin in South Africa is lower than that in the other regions is because in our portfolio of projects we always for some or other reason have a loss-making project in South Africa. And if we have that it pulls your average margin down. So the margin that you see is not the margin that we are tendering. We are actually tendering a slightly better margin. The tendered margin should give us between 5% and 7.5%. And if we don't get there it is a consequence of challenges that we had on projects that are not achieving the tendered margin.

Ed Jardim
Any other questions for Orrie? Orrie, thank you very much. Our next presenter is Steve Harrison for the Power & Water platform. Thanks, Steve.

Steve Harrison
Morning. I hope everybody can hear me. My name is Steve Harrison. I'm currently the MD of Murray & Roberts Power & Energy. I have been for four years. And as Henry mentioned I'm currently looking after the Power & Water platform. I will just take you through a few areas. We have an overview of the platform initially, market outlook, some key supporting projects, and then there are some target opportunities in our space.

We have extensively restructured the platform in the last couple of months. As you can see I sit in the acting position looking after the platform. In essence we have three companies in the platform. One of them is Genrec. Fergus Derwin is the MD of that company. He reports in to me currently. And then there is Murray & Roberts Power & Energy, which I mentioned I'm the MD of, and then Murray & Roberts Power & Water which includes the successful acquisition of Aquamarine and we have integrated it into that water business.

If you look at the structure it is a classic project delivery structure that we have now focused upon. Finance & Commercial. Adrian Plantema is the CFO. He looks after all financial aspects, commercial aspects, human capital, procurement and project control. Then on the Project Delivery, I still look after that Project Delivery group within the platform. Engineering Projects, we have about 60 engineers in the platform. They fall under Frans Jooste. And we have an operation down in Secunda which we started this year. Construction Operations. The power programme is ring-fenced but it has a project director looking after that. Project Services. And then Business Development is looked after by Mike Jones. Power, Dr Baholo looks after that. He is the sector specialist. And Harry Singleton is the sector specialist for water. We have a Risk Manager for the platform and we also have HSE and QA.

Some highlights for the platform for the year, the power programme does continue to underpin our business but there are some interesting opportunities coming to play in the power space. I'm very pleased with the safety performance of the platform, 0.27 is the LTI across the platform year to date. Genrec historically obviously was a structural steel company. They expanded into some other areas which I will talk to you later on outside of their traditional focus. And then obviously growing the Murray & Roberts brand into East and West Africa. Our platform looks after the Ghana operations and the [unclear] company in Mozambique. And we have secured two projects in Ghana this year. One we have just completed and one we are just starting now. There are some emerging opportunities in the water sector, and as I mentioned we have integrated the successful acquisition of Aquamarine. The operating model. This started off as an ER framework. We have now implemented that at Kusile and we are rolling it out to all the new projects. SPQCP, I will talk to a slide on that and explain a little bit later.

Our health and safety performance as at the end of May, 0.27 as I mentioned as an LTIFR. From 15 million man-hours that we've worked this current year that equates to four LTIs across our whole platform. Obviously we want no LTIs in the platform, but I am very pleased at that return. 3.34 is the total recordable case rate. Again there is focus on reducing that, and there are initiatives that are going to happen in the platform this year where we hope to reduce that down. Staff on site, 5,209. As I mentioned 15 million man-hours we have worked this year.

Some highlights. Kusile achieved 6 million man-hours without an LTI which is a phenomenal performance, and they've got a zero LTIFR currently for this year. Again we've had 4 million man-hours in some of the other entities and over 2 million man-hours in Genrec and at Medupi. So a good return for the safety performance for the year. I'm very pleased with it.

Where do we work? Project development, project implementation, repairs, operations and maintenance. In terms of project development across the conceptual studies, feasibility studies and basic feed engineering we have bolstered our ability there with partnerships and existing relationships. We have executed three feasibility studies this year, two on power and one on water. And we currently have two prospects that we are chasing that we are optimistic about where we are involved with partners on feed engineering.

Project implementation, that is our core game. Detailed engineering, procurement, construction management and commissioning. We are active across that part of the value chain. Repairs, operation and maintenance. We have worked on planned shutdowns and repairs this year in the industrial boiler space. We have worked in Malawi, we have worked in Mozambique, we have worked in South Africa and we have worked in Swaziland in that space. We will continue to do so and grow that market.

In terms of our internal goals and aspirations we are a project execution company in power and water, and we are a construction-driven EPC. We have an engineering capability. Engineering procurement and construction management services support that EPC model through early engagement in feasibilities and feed studies. We have about 60 engineers in the platform. Probably half of those are based in head office and the other half are out on site. The platform offering is driven through our existing capability and capacity and experience and is anchored by strategic partnerships and joint ventures.

Integration and project development in the water space. After our acquisition we hope to grow that space using the acquisition and having technology wraps for opportunities in the water space. Asset management, as I mentioned, includes operations and maintenance in the power and water space. We have a joint venture with WorleyParsons where we operate in the power space. SM(EI)PP construction, that as you guys know is our core competency and it will remain so.

The key objective for this platform. We have restructured the platform to optimise our overhead as per that structure I showed you initially and create sound project delivery. Our primary platform focus is power and water. We also undertake projects in selected complementary markets. Project delivery competency exists in the platform. It has been enhanced through that restructure and we now have functional support and accountability at a project delivery level. During FY2016 I have committed that we will close out all the Murray & Roberts Resources & Industrial and Murray & Roberts Electrical Control Systems to a committed forecast. The revised platform structure will be responsible and accountable for that imperative. Electrical & Control Systems will fully support the power and water programme, so we won't be out there chasing electrical construction work outside our mandate of power and water.

I said I would mention SPQCP. The S stands for safety, P for productivity, Q for quality, C for cost and P for people. This started 18 months ago as an initiative through Andrew's office. For us it has grown into an operating model. We rolled this out at Kusile in around about July last year. We have seen some real improvements. It is all related to measures, targets and performance improvements. If you can't measure it, you can't improve it. So we measure these things on a daily and weekly basis. It is weekly scorecards. All meetings and agendas are in this language so everybody understands what we are talking about. And the communication centres around SPQCP. Communication underpins all of this.

In terms of the market outlook that's what President Obama observed. 600 million people in Sub-Saharan Africa don't have access to electricity. That is 70% of the population. And if you look at how many megawatts are available per million people in Africa compared to the United States it is quite alarming.

Power outlook. In the South African context the reality is that power and energy made up 44% of all projects in 2014. The REIPP programme and base load coal are key drivers followed by co-gen. the co-gen determination has just come out now. And that will be followed by gas probably next year. A lot of these opportunities on base load coal and co-gen will only come into play probably in the 2017 year. Nuclear, as Jerome and Henry have said, is expected to roll out in the next five years. At the end of 2014 there were 96 energy projects in Africa. 37 of them are in southern Africa and 39% are in the renewable space.

Some key opportunities in Mozambique. Open cycle gas turbine and combined cycle gas turbine. One of the platform companies was involved in the project at Ressano Garcia. Additional power plants in the next two or three years are going to come out on the back of the LNG development. And there are some unconventional projects on the go there in terms of biomass.

In Botswana there are some key prospects for us. Morupule B units 5 and 6, which is an IPP. And then the refurbishment of Morupule A is currently out and we are working on that. South Africa, there are obviously opportunities for us. There are 5,200 megawatts that will be available in base load coal, co-gen and the gas power project.

We have split our growth strategies into horizons. The first horizon for us, our strategic focus over this two-year period, is to convert these initiatives to orders. We spent a lot of time and effort over the last year and a half in developing these projects. We have made a considerable investment in it, and we believe that these projects are now going to come to fruition. So what do we want to do in horizon one? Secure the EPC construction work in the IPP space. Renewable energy as a platform we are interested in CSP and that is what we have been tracking. Those are some of the projects that are coming to fruition. We are also now in consortium with technology companies at an EPC level. We are becoming a player at the top EPC level.

As I mentioned through WorleyParsons we will secure O&M and power orders. And then enhance our engineering capability. As I mentioned we've got about 30 engineers at head office, but we will enhance that as we go forward. Strengthen key client relations and secure partnerships. Focus markets, as I said private sector IPPs and in the industrial space. Strategy for horizon two is Africa growth. So we are going to grow into Africa in that horizon in the next three to five years.

Some interesting quotes there. South Africa needs a water and sanitation revolution. That was said by our Minister of Water & Sanitation last month. Benjamin Franklin was obviously a very wise man in the 1700s. He said when the world is dry we will know the worth of water. And anonymous said the next world war will be fought over access to clean water.

The outlook for water in Africa. Again we are going to integrate Aquamarine's reseller network in Africa. We currently through the Murray & Roberts brand and the integration of Aquamarine have been successfully securing some containerised units that are going to go into Kenya. We are chasing opportunities in Mozambique as well. Mine water treatment, we did a feasibility study in Ghana this year and we are looking at another project in Zambia. Mozambique, we believe that on the back of the LNG projects obviously there are going to be opportunities in the water space for us. And we are also looking at feasibility studies on sea water desalination projects in Mozambique. In South Africa the strategic planning for the large sea water desalination and waste water plants will probably only come through in the next three to five years. But we are tracking those now, those large desalination plants. The mine water treatment plants in the Wits basin are also probably a couple of years off. The opportunities now in the water space are linked to the DOE power programme. And also we've got some containerised waste water opportunities through Aquamarine which we are also pushing forward with.

The strategy for the water focus, again our strategic focus in this period is to convert these initiatives to orders. We leverage the Aquamarine growth. We will focus on penetrating the local market though our collaboration with Hyflux, our Singaporean partner. ZLD is zero liquid discharge. That technology is becoming more and more present in the mine water space, and we will be looking at that technology. We've got to develop a water-focussed marketing strategy in the go-forward period. International growth years three to five. We will consider a water treatment acquisition, as Henry mentioned. It is in the early stages. But I believe that in three to five years' time we need to internationalise the water business.

Genrec, 55,000 square metres of structural steel fabrication facilities out in the East Rand. Where they operate currently they've got future prospects throughout Sub-Saharan Africa, so they are getting more and more active outside of South Africa and chasing opportunities. Again their strategies for growth are recover and secure future in the next few years. They will complete the power programme structural steel shortly. They need to address the project management capabilities in that organisation. That is a current focus for them. They have been working with Eskom on structural repairs in the power space. They need to carry on with that and get more contracts in that regard. They have also started refurbishment of truck bodies and drag line buckets. They have got some in their facility now and they are looking forward to securing some more opportunities there. The focus as I mentioned previously will be mining infrastructure, power, oil & gas. And they also supply internally to the Murray & Roberts group. Their strategic horizon beyond three years is also to grow some of their opportunities in Africa.

The order book 2015 to 2018, we have 80% secured for 2016, 50% secured for 2017 and 20% secured for 2018. The order book for that period is around about R6 billion in the platform. 85% of that sits within the power programme.

Key projects supporting our business. I couldn't stand here and not talk about Medupi and Kusile. Those are obviously key projects for us. Our scope on that project is we're directly contracted to Mitsubishi Hitachi Power Systems for twelve 800 megawatt boilers. Our scope includes structural steelwork, design, supply and erection, detailed design supply and erection of steelwork, ducting, free issue pressure parts, free HP piping and all free issue mechanical components on all twelve boilers. Currently at Medupi we have five boilers under construction. Boiler six as you know is synchronised and on the grid, producing 800 megawatts. And at Kusile we are five under construction now and we are expecting access to Kusile 6 mainframe foundations during the month of July.

Some achievements during the year, Kusile as I mentioned previously did 6 million LTI free hours. Our apprentice programme in terms of our ASGISA requirements is moving forward effectively. We are happy with that. Our operating model was embedded at Kusile. It has been there for a year now. It is launching at Medupi. Kusile boiler 1 and Medupi boiler 5, the hydro of the re-heater and super heater was completed this year. And Medupi boiler 6 as I mentioned is synchronised with the grid and producing its design output of 800 megawatts.

Other projects that we've got in the platform, in the Sasol environment we've got an SMEIPP construction contract, the VOC project and Secunda, probably the largest construction project underway in Sasol's portfolio at the moment. I mentioned Ghana. We have just completed a project for [unclear], Takoradi Port, in support of the [unclear] oil field. They were producing equipment for that and we supported those on that project. Now we have just started another project up there which is a marine gasoil storage facility which we are doing on an EPC turnkey basis. That is being engineered out of this office now. We started that project about a month ago. Husab Uranium Project is an E&I construction project in Namibia. That project also started about three months ago.

Target opportunities. In the power space the number of key prospects we've got is about six and a value of about R11 billion. As I mentioned we are positioned for REIPP, specifically CSP. We have been worked on the Olanga [?] project with the developer and the main EPC for over a year now. That is in Botswana as I told you. It is going to proceed in October. Base load coal, we are looking at key power in cooperation with [unclear]. We have a consortium agreement with [unclear], so we are looking at that right now. We are also looking at Marupule B in Botswana. And co-gen as I mentioned the co-gen determination has come out now and we have some opportunities there. We are also looking at developing our EPC capability to deliver about a R1 billion power plant. I believe we are currently positioned well for that sort of scale of plant. Any of the larger plants that we look at that need an OEM we will more than likely move forward either as a subcontractor or in consortium agreements. I mentioned the MWES joint venture with WorleyParsons. It has executed three or four repair and maintenance contracts this year. We are also chasing other prospects.

In water there are a number of key prospects, about ten, to the value of R1.3 billion. And I mentioned our ability to fully integrate and leverage our water acquisition, Aquamarine. Aquamarine are based in Cape Town. They produce skip modules and containerised modules that range from about 1 to 2 mega litres per day in a single container. They can be scaled up quite easily to between 5 and 7 mega litres per day. So we will be using and supporting Aquamarine to go to places that they haven't been before because of our strong brand. And we will also be integrating their product range into our offerings to our clients as Murray & Roberts Water. We are driving the opportunities through our partnership with Hyflux, our Singaporean colleagues, specifically in Africa. These are larger projects which are a little bit further off on the horizon, specifically desalination and waste water retreatment. And as I said there are also emerging projects for the water guys in support of the projects we are doing on the DOE power programme.

Genrec have got about six key prospects at a value of about R0.45 billion. As I mentioned they have commenced diversification into other regions of the market. They are doing work with Eskom in the power space and structural steel and plate work in the maintenance shutdown space and integrity of structural steel. They are also looking at truck bodies and drag line buckets. In complementary markets that support us we've got about eight prospects to a value of about R4.1 billion. Thank you.

Ed Jardim
Thank you very much. Do you have any questions for Steve?

Necessity Ngorima
Hi. What is the planned utilisation right now at Genrec and what do you expect it to look like in a year and in two years' time? And the second question is when do you expect Medupi and Kusile to roll off the books?

Steve Harrison
To answer your first question on Genrec, currently Genrec are finishing off the power programme. Obviously in the power programme there were 220,000 tonnes of structural steel that were initially in that order. Genrec didn't execute all of that work, but they probably produced about 130,000. So they are still finishing off the structural steel on that programme. What they are doing now is they have supplemented that with plate work after the power programme. That is still going to go on for a wee while longer. So the order book at the moment is reasonably healthy. They have got to look at other markets and other opportunities. The second question, when do I think Medupi and Kusile are going to finish. Obviously we are contracted to Mitsubishi Hitachi. The timelines that they work on, we are currently looking to be on site at Medupi till at last 2018 and ditto for Kusile. So we expect another three to five years out of that programme.

Ed Jardim
Thanks for the questions from the floor. We've got one question on the webcast for you, Steve. It is from Mohamed Ibrahim from Perpetua Investment Managers. How confident are you around your ability to deliver profit in large power projects given the risk from low margins and your historical difficulties?

Steve Harrison
I think the answer to that is obviously we set a target of 5% to 7.5%. So when we bid those jobs it is looking at achieving that overall margin. People talk about our historical difficulties in this space. We have Medupi and Kusile power station projects. I suggest that we are the only main contractor in South Africa who has the capacity and has that experience. So I'm happy that we can take that forward and deliver the margins that the group expects us to deliver.

Ed Jardim
And one more question from there.

Necessity Ngorima
Final question. What is your competitive advantage in water?

Steve Harrison
I think from a technology point of view the technology that Hyflux has is large desalination plants. So we have an excellent partner in Hyflux for the larger projects. And when you consider smaller projects the Aquamarine solution is containerised. It's highly transportable, it is highly scalable and it is cost competitive in that space. I think what we bring as a group is our ability to integrate the Aquamarine offering and take them to places that they haven't been before and create those opportunities. And when it comes with working with Hyflux obviously as a South African partner understanding the South African environment we're a capable partner to Hyflux.

Ed Jardim
Thank you, Steve. For our final presentation, Kevin Gallagher, the platform CEO for the Oil & Gas platform. It was actually Kevin's birthday yesterday and I thought I would get away with mentioning that it was his birthday, but not the number. Thank you.

Kevin Gallagher
21. Thank you, Ed. Good morning everyone. As you heard Henry talk about the Oil & Gas platform there is a lot to get through, so I will get straight into it. This morning I will give a short market and business overview and talk

about how the changes to our market have impacted our business over the course of the last year or so. And then I will look at our strategy and what has changed, if anything has changed, as a consequence of those market challenges. Then I will look at the products and services, and then I will finish by pointing out our global centres of excellence which goes some way to highlighting what we believe is one of our largest competitive advantages on a global scale.

To achieve our vision we are going to have to either build our revenue to somewhere between $2 billion and $3 billion by 2020 or alternatively we're going to have to increase our margins markedly on smaller revenues. What we have seen as a consequence of last year's story is that we have to adapt to reflect the changes in our external market conditions a little bit quicker than was previously anticipated. We have seen an accelerated end in the last year to the construction super cycle in Australia. We had all forecast in 2016 we expected those projects to come off in Australia. What we hadn't foreseen was that that would be accelerated as a consequence of the crash in oil price. That dramatic re-set in key commodity prices has doubled the impact of that and accelerated the impact on our market.

However, when we review our strategy – and we go through this process every year – the good thing from our perspective is that we believe that the strategic imperatives remain. Although there is a slight adjustment the strategy that we have adopted in the group over the past couple of years is a solid strategy. We are sticking to the plan for market diversification and really with the focus here being on the global marine business as well as the infrastructure market in Australia. We are focussing still within the oil & gas business on geographical diversification. And that is really about building on the relationships that we have with existing clients, following their activities in Australia over the last several years to take our business global.

And finally you heard me talk previously about our need to develop products and services, to differentiate on a performance basis by having products and services that separate us from our competition as opposed to simply trying to compete on price.

In terms of the oil price we are all familiar with this chart now. I don't foresee any great recovery overnight. I don't see it coming back up to $100 oil within the next 12 months or so. We will talk a little bit more in the following slide as to why I see that. The reality is what we have seen there is a re-setting for the immediate future, although I do believe in the long term that it is still a good business to be in. what is the impact of that on the Australian market? Well, in terms of new projects being approved this chart really highlights the fact that we're seeing a bottleneck of projects now in Australia at that position in the cycle. And I expect that to continue for a little while as costs come out of the Australian market.

Australia has to become more competitive. These are global players and they have projects all over the world competing for the same set of funds. And so until the Australian projects become more competitive I see this bottleneck continuing to build up and most of the growth then coming on greenfields projects in the international arena. That said we will talk a little bit more about the brownfield environment in Australia – Henry touched on that in his introduction – and how that market is developing. That is a very positive story for us.

If I look at oil I want to give you a context for where we see the main growth regions. As you see us talking about strategy later on hopefully it will match up. You can see here from an oil perspective you see a lot of growth in the US. I would ignore Iran and Iraq from our strategic growth perspective. I am not focussing much on going into Iran and Iraq to grow our business over the next couple of years, but certainly the US. Despite everything that has gone on in the last year one thing that surprised the so-called experts who operate in the oil & gas arena is the robustness of the US to the drop in oil price. The shale oil wells that are producing across the US today are very robust at $60 oil. That has been a bit of surprise to the marketplace. So we see the US as a large growth area. Canada is not highlighted, but you can see the strong growth in Canada as well over the next 20 years or so. And in Africa we see Angola. Angola is one of the biggest growth regions from an oil perspective in Africa. If I go forward to the gas slide you see from a gas perspective you see a lot of gas development and a lot of growth in the gas sector or the LNG sector specifically in Africa over the next 20 years or so.

The United States has even more pronounced growth in the gas industry. That is the shale gas developments that you've heard about, many of which have started and are in development. But there will be future developments as well as the fields continue to expand. And we see that as a massive growth area. Canada again, a little bit of growth there, but a strengthening gas market in Australia as LNG projects get export licenses. And it one of the easiest routes for North American gas to be exported to the Asian LNG customers.

The Australian growth here is quite significant but I would ask you to consider that the Australian growth in terms of the gas market is a little bit out of date given it is a year out of date or so. And the reality is this is the stuff that is being built today, so this is not new growth. This is the gas that will be coming on from these projects over the next couple of years. Another significant area to look at is in Indonesia. Again we see growth in the Indonesian market for domestic gas supply. And Indonesia has recently moved from a long-term exporter of LNG to now looking to be an importer of LNG. It is one of the largest import terminal opportunity markets in the next three to five years.

In terms of where these projects are located, I will go through the three different regions that we see as growth regions for us in the Oil & Gas platform. In North America first of all 42 separate LNG projects currently have applications in for export licenses. Now only seven in America have been approved, and we are working on some of those. But there are 42 LNG projects in the process. If they were all to be approved – which they won't be – that will be around 300 million tonnes per annum. To put that in context, Australia's boom was off the back of adding around 65 million tonnes per annum. So there is 300 million tonnes of gas coming to the market with current applications on the table to the Feds to create new LNG projects in North America. So there is a lot of activity. This is currently what I would describe as [unclear] activity and it is changing every day. It is a race to get the licenses. It's a race to get the projects up and get them through FID and get gas to the market.

Africa. The two big zones for us in terms of LNG would be Tanzania and Mozambique. Again there is anything between 75 and 95 tcf of gas to be developed. I believe these projects will be developed. Timelines, you've all read the timelines. LNG always tends to takes a little bit longer than anybody expects or hopes it will take. But there is too much gas to be left in the ground. And I'm very confident that somewhere over the next decade you will see four to five LNG trains being developed across these two regions.

Asia. Asia is a place that we often forget about. And it is not all about new LNG development. If I go to Australia first of all that gas will come on in the next couple of years. We will go from around 20 million tonnes per annum to 85 million or 90 million tonnes per annum of LNG to be exported. Much of that will be exported to the Asian markets. What that means is two things. Number one, in Australia over the next three or four years you will see a brownfields market that will grow from $1.5 billion to something like $5.4 billion per annum. That's a threefold increase in the size of the brownfields market in Australia. And that's a market that will be there through 2040 plus. These LNG trains operate for 25, 35 or 40 years, no problem. So that market will be there for that amount of time.

What will also occur during that period will be significant brownfields expansion. So as much as a greenfields project in Australia today is not competitive on an international scale – not even close – a brownfields expansion, a third LNG train perhaps at an existing facility, is very competitive because all the utilities and infrastructure is already created, which is the largest cost of that train. And to help you understand what those economics look like, in 2005 or 2007 Woodside Energy brought on train 5 at the North West Shelf. The cost of that was around $2 billion. A few years later they developed Pluto 1 which is a standalone single train development. It was a single train just like train 5 was. That was $14 billion because it was a greenfields development. So $2 billion versus $14 million. The economics of brownfields expansion by far out trump and beat any greenfields development project anywhere else in the world. So there will be brownfields expansion in Australia. There is still a lot of stranded gas. The big greenfields opportunities we are looking for in Australia will likely be offshore. So Browse will go ahead. A lot of positive noises there. And there will opportunities or us on those projects. But it won't be onshore LNG construction.

What does it mean for Asia if Australia is exporting all this stuff to Asian economies? It means import terminals. It means LNG re-gasification facilities. An example in Indonesia today we are looking at 12 re-gasification projects for the same client around different islands of Indonesia where they want to bring LNG in for the domestic gas market, because as I said earlier they are going from being a net exporter to being a net importer. So it is a very fast-changing world. Those are the three regions that we are really focussed on globally. That covers most of the world I guess.

And this slide gives you a breakdown of the projects between Canada and the USA. You can see the concentration in North America mainly around the Gulf of Mexico. Again it is a very easy and quick transition from what was previously built as import terminals over the last decade or so when companies thought they would be importing LNG into North America, turning these projects around to export terminals because now the shale gas is economic. And Canada you can see on the west coast a number of projects in Canada on the west coast. And we expect two or three of those to get up over the course of the next year, and we are working on a number of those.

The small business that Henry talked about this morning, a very small upfront front-end consultancy business, in partnership with Clough now is offering owners engineering services and has recently been awarded the Magnolia project in the US and the Freeport in the US on those engineering contracts there. And we are currently talking to a number of LNG operators across the US and Canada for similar scopes to be awarded to us.

In terms of that brownfields market, let's look at both greenfields and brownfields markets here in Australia and PNG. You can see the greenfields expenditure dropping off quite considerably in terms of total capital expenditure. The trend is going down as we have already described. I would suggest this data would move to the right one year based on delays in some of the greenfields projects coming online. But you can see the ramp-up in total operating expenditure in this area is very significant over the next few years. And this is real. As I say, it is here to 2040 plus.

What is interesting about the PNG story though is that it has been really difficult. We have been operating in PNG for between 25 and 35 years on and off, and it has been really difficult for any company to have a sustainable business in PNG. You go there for a project, the project finishes, you come out, you go back a few years later for the next project. What we are seeing now is enough of a consistent, continuing operating market that will be able to sustain businesses in PNG if you look at that operating expenditure just creeping up as new trains come on. We expect another two trains to be developed in PNG over the course of the next five to seven years. That works is starting now. We expect in the next 18 months that at least one decision will be taken on one of those projects. As they get constructed we then have a significant opex environment being created to sustain our business in PNG. We see ourselves as one of the only significant local contractors in PNG who can provide those services locally and expediently for our clients.

In terms of the other parts of our business we want to indicate here the size of the markets that we see in the global marine business. We see significant opportunities out there. And we will split them up by different types of opportunities. And our Australian infrastructure business where we will continue to look at contracts on a select basis by contract type more than anything else. We view ourselves more of an EPC contractor, not a DMC or [unclear] contractor. That is all about risk management. But you can see some significant market opportunities there. And we continue to look at these markets to help ride the cyclical effects of an oil & gas market.

In terms of how we're performing this is at the half year. We don't have the full-year data yet. We always like to look at how we're performing in our market space. At this point in time based on our two-year growth rate you can see that we are competing favourably against much of the competition. But this wouldn't be a surprise because this downturn in Australia has happened so quickly because of the combination in the drop in resources prices and of course the big projects coming off naturally that many of the companies competing in our sector frankly were caught out. And I'm sure you will read all about it, some of the companies having challenges.

In terms of our strategy then we have seven strategic imperatives. Really what I want to say here about our strategy is that the first two are all about building capability. We are very focussed in our platform on being ahead of the game. We can't simply try and compete on labour rates and raw cost. It is a race to the bottom. And ultimately what want to be doing is offering our clients solutions, services, products that bring value to their assets. By doing that we can drive margins up and of course put ourselves in a much better position to win work and rebuild the order book.

Here we talk about our project management capability and bench strength. We believe project management is a differentiator, true project management. If there is one thing we have seen in Australia in the last five years is the effect of poor project management. It has been very clear on some of these projects. Implementing good systems and technology to enable reliable and efficient project execution. What do we mean there? By getting in early on these projects and designing these projects to design cost and risk out of the clients' projects, to take the execution costs down by designing so that we can construct in an efficient and lower-cost manner.

In terms of our oil & gas product growth you can see a big focus here on the EPC products and services. Our commissioning and brownfields, by developing lower asset management systems so we are building something, we are commissioning it, we are taking all that data management into the operations phase to have a seamless handover of a constructed facility to a client with maintenance programmes and asset management programmes in place at the date of start-up.

And jetties and terminals, differentiating ourselves here on innovation and productivity. We believe we can build some of these jetties around 65% of the time we are currently building them. We have mapped this out using some of the productivity tools and we believe we can do that. And how do we do that? On a project today we're delivering three piles per day. The historical norm was one pile per day. It is by designing construction equipment, designing work practises so that we can drive high-productivity outcomes. That will deliver more value to a client's marine project than low-cost engineering delivered Beijing or Bombay.

And our water and power infrastructure businesses in Australia. I emphasise this is local to Australia. We believe there is a sizeable market there with our brand, the combined Murray & Roberts and Clough history that we can secure a stable part of that market to sustain our business and give us longer-term sustainable revenue streams that help us ride these waves. And finally, and it is an extremely important part of our strategy, is to continually focus on driving our operating costs down. If you're not on project you're an overhead. It's as simple as that. Every single piece of overhead has to be maximising the value that they deliver to the business. That is very much the theme that we drive.

You can see the theme story summarised on the right-hand side of the chart there. Driving market diversification into complementary markets, geographic diversification of our oil business into international markets off the back of our existing client base, and having cost structures that work for our business.

What does that looks like when you look at it globally and across our product and service lines? I'm not going to go through all of this, but just a summary of the different regions and for all of those services what our emphasis is, whether it is to maintain our business position, whether it is to enter into new markets, whether it is to grow our position within that region. And in all of these there are different strategies and different plans to help us deliver on these aspirations.

I talked earlier about some of the products and the services. Within Murray & Roberts we have a core set of values and distil down into other values across the different businesses that we have and map back to the group values. And we are very value-driven in the way that we drive our business and in the development of our products. There are six core values here. Zero harm, performance, productivity, client focus, integrity and innovation. This chart here summarises some of the initiatives, some of the products that we are developing in each of these areas to work right across our business.

Some of the key ones. MAP, which is our major accident prevention programme. It is designed to take our safety performance to a new level. We are currently close to best in class in our sector as a contractor. But we believe that safety can be a differentiator in our sector, particularly when it comes to major accident prevention. And this is truly an initiative that maps our safety programmes to our management systems and gives a seamless methodology of managing projects and managing the safety hazards on projects. Our clients love this. This is creating new business opportunities on the back of us being seen as being serious about safety and being different and bringing something that benefits these major projects.

ClearView. That is our brand for our project systems. Today there are two focus areas that we are driving. One is an assurance programme that ensures what we do, we do right the first time. And the second one is really a reporting tool, a project productivity reporting tool that reports cost, schedule, materials and people information every single day from a project site and helps us identify early productivity issues, and more importantly drive higher productivity to ensure that our performance is best practise.

Thirdly, Project Management Academy. This is something we kicked off last year in partnership with Stanford University in the US. This is a programme designed to create the best project managers in the industry. We believe within a decade we will be able to claim that. We are convinced we will be able to claim that. Interestingly enough we are getting clients today asking if they can put some of their leadership and future project leaders onto this academy. And of course we are willing to entertain anything if it comes with a contract.

LNG Fuel. LNG Fuel is our micro LNG business. There is a lot of activity in the US today where this is already happening. We are building very small LNG plants for less than $100 million per plant that delivers around 200 tonnes of LNG. Not million tonnes, 200 tonnes of LNG. These are small, but it provides fuel to a mine site, for example, to replace diesel as a main power supply fuel, or even the fuel source for your big, heavy yellow trucks.

Cloud-based engineering. I'm sure many of you are aware there is a drive across these industries to have low-cost engineering centres. They are often referred to as high-value engineering centres. I would argue that every single LNG project in Australia got its engineering done in these high-value engineering centres. I don't think we have seen the value. I think the construction phase performance demonstrated that the engineering and the planning wasn't of the value that it was claimed to be. But it was cheap, and it was much cheaper than engineering from more developed countries. For me there is a big difference between high-value engineering and low-cost engineering.

We want to utilise technology to get our unit rate of engineering but we want to use good-quality engineering to ensure we get the right construction and operations outcomes for our clients. And we want to differentiate on that. Cloud-based engineering allows us to do engineering work 24/7/365. By having engineering centres globally where we have integrated teams, virtual teams working around the clock doing engineering work, we will be able to do that. This is well developed and today we are currently doing work on the Freeport LNG project in the US. That works is being done between our Houston office and our Scotland office to ensure we get higher rates of productivity. And so far, so good on that. And in the next stage we are hoping to develop a Cape Town facility and have a global reach for our engineering deliverables.

The Clough Foundation is really just an independent charitable trust that looks after all the charitable activities in Australia and PNG.

In terms of how we're set up then, it's a fairly simplistic organisational structure where you can see three main three main divisions. We've got our infrastructure & marine division run by Philip Cave. Tom Dockray runs the oil & gas EPC services division. And Max Bergomi runs our commissioning & brownfields services division. We have decided to split the commissioning & brownfields out as a separate division now as that is the fastest-growing Australian market. Next year I believe that more than 50% of our earnings will come from our commissioning & brownfields division.

So looking at those products and services, I've talked already about the fact that we want to differentiate on these in order to get higher margins. What do we mean by higher margins? For me we have talked about construction projects being a 5% to 7% margin business. That is the world that we operate in historically. As someone mentioned earlier one or two loss-making projects and of course you are very quickly to lose that. I think when I joined Clough it was down 1.3% or something with the gross margin back then. But that was loss-making projects that were hurting the business.

In our engineering business, the stuff we are doing in the US today, we can be 20% plus margins. Why is that? It is because it is a consulting service. We are bringing smarts to the table that are not readily available. It is a pure supply and demand relationship. By developing the right products and services we believe our clients want and value we believe we will be able to drive those margins up. You can see here we have mapped the services out right across the entire value chain from the concept and feed end of a project all the way through to production operations. And indeed we should add de-commissioning on here. A big project we are looking at in Australia today for 2020 is in fact a de-commissioning project. So we want to operate right along that entire value chain and develop products and services that reach right along the value chain including systems.

In fact a really important phrase we use is the one at the top here, which is we engineer to construct, and we construct to operate. That might sound like throwaway marketing words, but it is a really important concept to get into a business. When we are designing something we want to do that with a construction mind-set. We are thinking about how we are going to build it so that the design is effective and efficient for our clients and we can unlock value. The cost estimates for the construction phase should accordingly come down. And when we're constructing it we construct it so you can operate it. A great example of that in my experience is when we send operators out to take a pressure reading on a vessel and they have had to build shuttles [?] in to do it because somebody put the key piece we are looking at in a non-accessible location because there was no thought in the construction and design phase about how we are going to operate this facility. That all adds costs to your operations. By having a replication for doing that we can demand higher margins because we are delivering real value to a client.

If we look at the engineering and the EPCM business today our capabilities range from concepts, regulatory approvals – in the US we are seen as a leader in that area – feasibility studies, detailed design all the way through to throughput and project management services. Global clients like Inpex, Total, Woodside, Chevron, BP and of course Arrow as Shell and Apache, working with these blue-chip clients, this is why we are confident we are going to be able to take ourselves internationally on the back of these clients. There are none of these clients today we would consider ourselves in a bad place with. We have positive relationships with all of these clients.

Some of the key projects that we will be working on. The first FPSO one is actually a project with Veolia for one of our companies called Booth Welsh ECI, Electrical Controls and Instrumentation Company, who designs, manufactures and installs control systems. Then there is Magnolia LNG project in the US. We are CH-IV of a $50 million owners engineering contract. And I love to talk of that as only $50 million because there used to be $400 million contracts here. That is a $50 million which if it stays at $50 million should deliver between $3 million and $5 million of earnings because it is really good margins. I expect that to be $30 million plus. Already they are giving us more scope because we are producing for them. And we expect that one to grow quite considerably.

Likewise with Freeport. Chevron's Gorgon project we all know about. That is coming to an end. It has been a tough year for Gorgon. It will go longer no doubt than what the current schedules are showing. It has been a tough year from our perspective and from all the contractors' perspective because lower oil prices didn't just stop new projects coming along; it choked the revenue flow for our major clients as their oil & gas revenues were heavily impacted. And of course the consequence of that is they want a little bit back from the contracting community, and they got a little bit back from most of the contracting community.

The Ichthys project where we deliver project management services to help them deliver that project is going really well. We are seeing growth on that project. One of the biggest opportunities in the next couple of years is the hook-up and commissioning opportunities with their several processing plants and offshore facilities. And then there is the Arrow Upstream feed project in Queensland where we are the EPCM contractor.

In terms of onshore and offshore construction some of these projects are closing out now. You can see some of the key projects there. [Unclear] 3 finished earlier in the year. Santos K128 is just finishing up. And of course ExxonMobil's projects in PNG. There are a range of capabilities listed on the right-hand side of the slide. Again you can see blue-chip clients. ExxonMobil is the one I'm most excited about on that particular list. We are talking to them about some international opportunities and of course follow-on projects in PNG. And given that they have an annual impact larger than the GDP of most mid-sized countries worldwide they are not a bad client to draw your business off the back of.

In terms of near-shore marine a project this year was our FMG AP5 project which has gone well. Chevron's Wheatstone project still has another year to go. And we are at the final stages of Ichthys project for the LNG jetty there. That is the third jetty project we have delivered for JDC as an EPC contractor. And I can tell you that they are very impressed, and we have talked to them about a number of re-gasification jetties worldwide to supply those services to them.

Commissioning. This has been a huge growth area for us with the acquisition of a company called E2O in 2012. We have seen enormous success in this area. We are now Australia's largest commissioning contractor by far. Today we are on Wheatstone's HUC project which has been delayed this year. That has impacted our performance this year because of delays on that project. However that is purely deferral and that project is going to be much bigger than we ever anticipated it was going to be as a consequence of carry-over work coming out the shipyards that we've got to deal with that was unplanned.

APLNG in Queensland, the commissioning management services over there. And of course Gladstone LNG project where we've been providing commissioning management services to them. This group will look at anywhere from completion services, throughput services, onshore offshore commissioning all the way through to Asian fabrication yard support.

Our brownfields area. Historically this has been an area where most of our work has been through the Clough joint venture in Australia. We have been with that joint venture for ten years now. It is quite a limited joint venture in that the area of expertise we see as maintenance services only. Maintenance services is a low-margin but very reliable business. It is blue collar maintenance services. There is no real risk you take in that job, hence the margins are low, but the contract terms can be quite long. So it is a nice, sustainable, recurring income type of business. We see the brownfields business being much wider than that. Brownfields equals EPC. It can be $100 million plant upgrades, de-bottlenecking projects, plant optimisation projects, it can be regulatory driven so we have to comply with new environmental standards and upgrade a plant accordingly. And so it a range of EPCM services as well as those historical maintenance type services. And that includes decommissioning as I talked about earlier.

What is important here is to remember the point I made earlier. In Australia alone we are seeing this market go from $1.5 million per annum. Between now and 2020 it should develop into a $5.4 billion market. That is a whole new market for us, and we see ourselves as well placed to get a considerable share of that market. One of the things that are not in abundance in Australia is contractors who can work across that entire value chain, who can do the engineering work and the construction. There are very few who can do that, and we are well placed.

So what do we look like today? When Murray & Roberts completed the transaction in late 2013 to buy out the minorities Clough was really Clough. And today the platform has grown quite a bit and expanded. We have talked about a couple of the acquisitions. If you look at our platform architecture today we see Clough as a brownfields contracting specialist, CH-IV as our LNG specialist, front-end specialist in the US, Booth Welsh a CNI [?] company.

Now, that's a real gem in my view. This is a high-quality contracting business that I believe has got a very bright future. I got it wrong though, because when I recommended we acquire Booth Welsh I thought I was going to grow them astronomically overnight by taking them into the North Sea oil & gas sector. And of course what happened to the oil price almost a day after we acquired them? The oil price crashed and they didn't get into oil & gas because the North Sea shut down. But they have continued to grow better than plan because they are good. So now we've got to take them to the global oil & gas sector. And I still believe the future is very bright. Even they I don't think fully understand the growth potential that they have.

E2O is a company that has grown enormously over three years. CloughCoens had a tough start, but we see things beginning to move in the Korean shipyards for CloughCoens. Our CMR marine brand is a coming together of the Murray & Roberts Marine Engineering business in Cape Town with our marine business that has only really been part of the BAM Clough joint venture for the last 50 years. And this is a brand that we see getting a really warm reception as a fresh approach to delivering marine projects globally. I believe this is a huge market, a €7 billion per annum market that has no one as a stand-out performer operating in it today. And it is a market that we are targeting through our CMR brand. And BAM Clough will continue to deliver marine project within the Australian marketplace.

Next is just another representation of the same thing. Our reach now is quite global. We see in the short term the growth for our business, albeit from small beginnings in North America, small beginnings in the Amir region and of course the closer Asian region. But we also focus on building that brownfields business in Australia in order to get a platform that can realise that 2020 vision that we have four ourselves.

The following slides in this pack I'm not going to go through, but I believe they will be posted on the website. They really just give you a one-page description of the various companies that I've just run through, Booth Welsh, CH-IV, CMR Marine, E2O, CloughCoens and Clough AMEC. Thank you very much.

Ed Jardim
Thank you, Kevin. Can we have any questions for Kevin from the floor?

Necessity Ngorima
Hi Kevin. How big do you expect CH-IV to be in two to three years' time compared to what it is now, and what it is now? And what is your strategy for growth in the US?

Kevin Gallagher
I don't anticipate CH-IV ever getting that big because what they do is very niche. But off the back of them we have Clough CH-IV as an owners engineering and EPC brand. And my hope would be that that would get quite big. I would think within the next couple of years I would be targeting very quickly going to 200 to 300 engineers working across the continent. But of course it is hard to say how big. I'm not giving specific numbers because… How many are we now? We are 40 to 50 today in total. We are small numbers today. But it only takes one large EPC contract or one large owners engineering contract to transform that. And it is about picking the right contract. One thing I can say categorically we will not do is we won't be taking on new construction projects in new environments that we don't understand. So this is mainly engineering-led, EPCM and EPC, but with proper risk management structures in place to manage those projects. What I do see is I see the US as the fastest-growing marketplace at this point in time. It is moving very fast. It is a race for these projects. They are not all going to get across the line. The US hasn't said how much export capacity they will allow to go out, but it is not going to be that 300 million tonnes per annum, that's for sure.

Ed Jardim
Any other question from the floor?

Unidentified male speaker
The other platforms disclosed an order book. I didn't see one on your presentation. Can you give us one please?

Kevin Gallagher
That's my omission actually, sorry. It wasn't deliberate to do that. The order book right now is around $1 billion. And what I would say about that is that if you want to know about my pipeline, the pipeline is anywhere from $5 billion to $10 billion. But a lot of them are sitting in that FID position right now. Some of them we thought last year were going to come up this year, but they have all been pushed back a year. Hopefully they will still come through. The main visibility for us on that pipeline is in Australia because it is the market we know best. We are building that picture internationally, and that is quite exciting. The one thing I would say to everyone here today is when you think of order pipelines Clough has operated in the Australian PNG context and we've been pretty successful in the last few years in the oil & gas market. But that entire oil & gas market at the peak of investment represented 6% of the global oil & gas investment last year. So we were quite good in a small market. We have never really gone after the big market. We now have the opportunity to go on the back of our clients. But what's important is that we pick the right vehicles to do that, the right partners to do that with, and of course the right projects to do it on. So that is very much our strategy to grow that. I expect you will see an increasing proportion of the order book as it starts to solidify in the next 12 months become international operations versus what has historically been an Australian order book.

Merrill Lynch
Hi Kevin. [Unclear] here from Merrill Lynch. Thanks for the presentation. You seem quite comfortable with Clough's earnings and margin outlook for the next year or two. Can you give a worse case or some kind of sensitivity analysis on…? You seem to expect the oil price to stay at current levels for the next two years. What would the worst case for Clough's earnings be 12 to 24 months out?

Kevin Gallagher
In terms of margin a worst case would be if we start having projects that are bad, loss-making projects. So I'm not going to go there because we don't work out what that might be. But in terms of our normal, ongoing operations

what I would say is we have been heavily impacted this year by the slow-down in oil price, cancellation of some projects, certainly deferral of some projects and cutting of scope on existing projects. And added to that, renegotiation of rates by some of the bigger clients who were hurting themselves and wanted us to share that pain with them. So those things have hurt us this year, and we are still coming in around 7% for our platform. So we are still coming in around 7%. So what we have been able to demonstrate is a business that is resilient even in times like this and able to respond to unforeseen changes in our external market. I suppose if you took the Armageddon approach to the world, it kept going like that and there were more big negative surprises, that would suffer with time of course for any business. But I would say the reason that we're still performing well relative to our peers is that we now have a much more robust business. By focusing on acquisitions and internal development of products and services that will allow us to go after higher-margin contracts that should enable us to drive those margins up or in this tough environment to maintain margins. That would be the expectation.

Merrill Lynch
Okay. And just another quick question on your peers. Are you seeing them downsizing or are they being as resilient as you are and waiting for the cycle to turn?

Kevin Gallagher
What I would say is a lot of them have been crossed out. I don't take any pleasure in pointing that out. We would much rather everybody was enjoying the good times. I see a lot of downsizing. I was telling Henry this morning we had a staff briefing in Perth last week with HQ and we had a record attendance come up at that. I'm convinced they thought it was going to be some mass redundancy programme or something being announced because that is what we are hearing in Perth all the time without competition and even some of our client organisations. But we are not because we have been able to respond. We've got a model which has got a little more elasticity in it. Yes is the answer to that. They are all cutting. I like to think that we're still focussed on developing products and services because we've got to stay profitable through this. Who knows how long this is going to be? I'm not going to stand here and say we're at the bottom. We don't know. The market will do what the market will do. We've got to be robust in case it does go a little bit lower. But when it comes out we've got to be ready to take advantage of that. And I believe that the work we're doing today, and the business development work we're all doing, the products and services we have developed, I believe we are in a very good position. And even with these new companies we've acquired, these new capabilities have enhanced our value proposition. We will be in a really good position to take advantage of an upswing. Thank you.

Unidentified male speaker
Thanks Kevin. Just a question. If the US government were to approve ten LNG projects how many in theory could you take on yourselves and roughly of what magnitude?

Kevin Gallagher
In terms of what we're currently offering in the market we could take ten. We could take all of them. What we are providing is engineering services. And on most projects what that means is our clients don't have big engineering departments. They don't have the capability to run these things themselves. They may appoint a tier one, a KBR or someone like that as an EPCM or EPC contractor. They need someone internally to manage that contractor. And so they hire us to help them do that. It puts us in a different position relative to tier ones and it changes the relationship we have with them globally as well. Quite often we are contracting into those on other projects. In terms of how many people per project that would be, 50 or 100 people depending on the size of the project. However, what I will say is with our current discussions with these clients they are seeing a real lack of LNG engineering capability in the US. There isn't a lot of it around, and there are a lot of projects requiring it at one time. And this is what Australia looked like about seven or eight years ago. It is not too dissimilar. Wages are going up. There is a scarcity of supply of qualified resources. And so the conversations that are coming to us now from clients are more about, okay, you are on as the engineer, but we want you to look at some additional scope as well. I'm not quite sure how that is all going to settle down. But I think there will be a lot of opportunity there in the next couple of years.

Ed Jardim

Kevin, I've got three questions on the webcast for you. Tinashe from Afrifocus asks: whilst the oil & gas industry in Africa potentially delivers higher returns, does it have significant risks? Please give us some more insight into the risks and competition in these markets compared to Australia and Asia.

Kevin Gallagher
Okay. What I would say is I think the oil & gas industry is extremely experienced at managing those risks. If you look over the years they have worked in Africa, they have worked in third-world countries worldwide where there have been huge political challenges. And they are normally pretty good at doing that. From a Murray & Roberts group perspective we work with the clients, not with the governments. So our relationship is directly with the clients. So we like to think the risks for us are very manageable. Our clients will always pay us. That's what's important to us.

Ed Jardim
A question from Irina at Foord Asset Management. Can you please comment on if the percentage of the $3 billion revenue target by 2020 is achievable by organic or acquisitive growth?

Kevin Gallagher
It depends on what you call organic. If you count E2O's contribution as acquisitive then I would think that is more organic. They would have been with us seven years by that stage. What we are more looking at is the types of services and products that we're delivering. So we are acquiring these companies to add to a skills set so that the overall value proposition is enhanced and that we can get the margins that we're seeking. So we would look at what would be coming from commissioning, what would be coming from brownfields, what would be coming from greenfields etc.

Ed Jardim
The final question is a two-part question. What would be the biggest negative macro surprises which would affect your business? And the second would be from a micro perspective what are the key factors for growth for this business which are within your control?

Kevin Gallagher
Let me take the second one first. The micro factors would be about developing the skills, the capabilities, the products and services that are in demand. If we can develop stuff that is in demand, and we can do it better than the competition, it really should be a self-fulfilling prophecy at the end of the day. It should take care of itself. For me it is about having something that our clients want. If we can do that, we do it well, and we have the discipline and an operating model that doesn't allow loss-making projects to kill our profitability, then I think we can be successful. In terms of the macro surprises that could undermine that, I think we've seen what that looks like this year in terms of the oil price crash. I've seen very few people who would even claim that they could predict that was going to happen three or four months before it happened. So we can't kid ourselves that we're experts. I could stand here and say I think America is robust to the lower oil price now; we're going to see these volumes come into the market. We have effectively got two Saudi Arabia's. I don't actually believe that Saudi Arabia has the capacity that they say they have to turn the tap on and drive the price lower. But I could be wrong. In fact, I'm probably wrong. I only read stuff and listen to presentations and go to conferences. But at the end of the day I've got a view on it. I think what we have to do is continually remind ourselves that you have to be prepared for something going wrong, have an operating model that allows you to downsize appropriately without losing key skills and capabilities, and that you're able to respond quickly.

Ed Jardim
That's it from the webcast. Thank you, Kevin.

Kevin Gallagher
Thank you.

Ed Jardim

That wraps up the last of our platform presentations. Henry is going to close up the session for us. We thought we could get away from it, but we've got some questions emailed to me from your first presentation. Let me ask quickly and then I will hand the microphone to you. It is from Irina at Foord, and there are three. You speak of growth in your objectives as a means to add shareholder value. Have you discussed with your board the role of dividends and share buybacks as another tool to add shareholder value at this point in the cycle?

Henry Laas
This is a very topical point that we discuss quite regularly in the group nowadays. Share buybacks, what do we do? There is a perception out there that Murray & Roberts has got a very strong cash balance. That is so. Net cash at the end of this year will be north of R1 billion. Having said that, the dividend policy is also an important point that we are discussing. We believe that a share buyback will add value if you do it at the right time. And with Murray & Roberts' share price currently being as low as it is, it is a good case that you've made for the share buybacks. However, we also want to grow the business. And if we think we can apply that cash to an acquisition to add better future growth to our shareholders we will do that. We have not made a final decision on this matter, but we are leaning more towards coming up with a clear dividend policy and then also making sure that we have cash resources to fund our growth aspirations.

Ed Jardim
You mentioned 93% of EBIT is driven by offshore operations, this in part driven by losses across most of your SA platform. What are you doing to address the cost base in these divisions in order to improve profitability in an environment where top line growth is difficult to achieve?

Henry Laas
Rationalisation and cost reduction and being cost-effective is a focus area for Murray & Roberts and we have worked very hard on that in the past year. During May and June we have been through a rationalisation in the Power & Water platform just as an example. There we took out about 145 people out of that platform. And Orrie in the mining business has done exactly the same as far as the South African mining business is concerned. They have also gone through some rationalisation. I think we are very responsive and proactive as far as the market is concerned, trying to get the cost base in the group to reflect where it should be considering the market circumstances. I don't think there is a lot of scope left in the group today from a cost reduction point of view. Obviously there is always room for improvement when you look at efficiencies, but we have removed the costs out of the group to align our cost base with what the market circumstances are currently.

Ed Jardim
And a final question. You speak of participating across the project value chain. Can you indicate what your target contribution would be between the more annuity-based income streams versus more cyclical income streams?

Henry Laas
I think this is a question that we cannot really answer in a group context. You need to do it per platform. If you take the Oil & Gas platform as an example, the opportunity we have in Australia right now with these LNG processing plants coming into operation, it is presenting an opportunity which is unique to the Oil & Gas platform that for example doesn't exist for the Infrastructure & Building platform. So we do expect that the brownfields and greenfields and those type of services in the Oil & Gas platform will grow significantly in the future, more so than in the other platforms. But it is purely because of the way in which the market has played out. What we have started to do very recently is we have started to measure in each of the platforms the earnings contribution across the various phases of the project value chain. In other words, what is the earnings contributing that we get from developing projects, from engineering projects, from constructing projects, from commissioning projects and then from providing a service during the operational phase. I guess there is no specific target that we have set. We are starting to measure now. And as soon as we start to understand better what the success rate is I think we can start to think about targets.

Ed Jardim
Thanks, Henry. There are no more questions on the webcast or email.

Henry Laas

Thank you, Ed. Ladies and gentlemen, I want to wrap up. Thank you for your attendance. Thank you for your questions. The people on the call likewise. As I said right at the beginning, Murray & Roberts today is not a South African construction company. It is an international engineering and construction company. We do experience tough trading conditions. We are all familiar with that. As I said right at the beginning, our earnings guidance for the current financial year which closes on 30th June is that our continuing headline earnings per share will be very similar to what we reported in the previous period, and that was R2.05 per share. We do expect that FY16 is probably going to be a bit tougher than what we experienced in 2015. But having said that, FY17 and FY18 we believe from our budgets and business plans which we have just completed should present good growth opportunities for the company as a whole. Thank you very much. For those of you who do have time, the executive will be around for a couple more minutes. If you have any further questions please feel free to ask them and we will answer them. Thank you.

END OF TRANSCRIPT