Conference call transcript

27 February 2013

RESULTS CONFERENCE CALL

Ed Jardim
Good morning ladies and gentlemen. Welcome to the Douglas Roberts Centre and the Murray & Roberts precinct. We call it the Murray & Roberts precinct because all of our companies apart from our fixed site facilities and those in different geographies we have them based in Bedfordview. The floor that you're on is the 9th floor. It is called the baobab learning centre. Up until about five years ago all the directors and senior executives used to sit up on this floor. And a decision was made to have the directors and executives go down to the first floor and this floor essentially became a storage space. But also in the background there were plans to actually turn this floor into a space where we could learn and do all our training, most of the theoretical training in fact. And up until two years ago we opened up the doors to this facility and we now do all our theoretical training here apart from the technical training. So welcome to the centre. We appreciate you coming through to Murray & Roberts and joining us here at our home.

Just in terms of safety, safety is big in our lives so in an unlikely event of an emergency an audible alarm will sound. We ask you please to remain calm and to exit via these two doors out the back. There is an emergency exit just around the corner to the left which will take us down to the ground floor. There are also two emergency stairwells on either side of the elevator. Please exit via the main entrance where you came in. And then the main assembly point is across the road where most of you would have parked, and we will do a roll call there. The bathrooms, the ladies and the gents – it's unisex – is just around the corner to the left. I think I would like to hand over to Arthur Thompson now on behalf of the Investment Analyst Society to do a welcome for us.

Arthur Thomas
Thanks Ed. Well, good morning everybody. It's a delight to be back in the centre here. I think it was probably a dozen years since I was last here. The parking is great, everything is wonderful and it is just off the highway as well. So thank you very much. It also gives us an opportunity to actually keep the ties in a way. So I think we all appreciate that. As I was chatting to Henry earlier please walk around and ask people what they think about the venue and how convenient they find it. I certainly found it interesting personally. Other than that what I'd really like to say is on behalf of the Investment Analyst Society thank you very much for hosting us today, brining us to see your head office and of course the refreshments you are giving us and what we know will be an excellent presentation. We look forward to hearing all about the construction industry, hearing about yourselves and what your strategies are for the future and giving us something we can plug our spreadsheets with as well. Thank you very much. Over to Henry Laas, the Chief Executive.

Henry Laas
Thank you, Arthur, and welcome. Whilst Ed was talking about this facility I was smiling because we've got this building. We refer to it as our corporate head office, but the head office is actually only on the first floor. On the ground floor we've got shared services, which is the IT department, and then on the first floor is the corporate office. And then all the floors higher up is occupied by the operations within the group. But there are two other buildings, the building next to this one and then another one just around the corner down Skeen Boulevard. If you've been down that road you would have noticed that there always was a Group Five office somewhere down the road in Skeen Boulevard. They must have realised that their presence was not really appreciated in the Murray & Roberts campus and they have decided to move. So they have vacated the building and here we are on Skeen Boulevard. This is the Murray & Roberts campus. This is where we operate from. It is really very nice for me to receive you at this venue, and a word of welcome from me as well. I would like to also welcome Mahlape Sello, Advocate Mahlape Sello. She is our chairman. And it is very nice, Mahlape, to have you with us. I don't know if you want to say a few words. Okay.

Mahlape Sello
Good morning everyone. Henry has invited me to say a few words, and they shall be a few words indeed. As the chairman of the board I would like to welcome you to our centre here in Bedfordview. As Henry says, you all know Murray & Roberts and we hope that today you have the opportunity to put the name to the face. On behalf of the board I would like to welcome you and express our gratitude that you've made the time today to come talk to us. The board is pleased with our six month results, and we hope that you will be too. The board is particularly pleased with the strength of the balance sheet relative to a few years ago. And we hope that in our presentation you will understand where the pleasure comes from. I think it bears mentioning, of the highlights one key issue pleases the board, and that is the close-out transaction of the buy-out of the minorities within Clough. We believe that this is a sound acquisition. It will stand the group in good stead. And we hope you will share our view in that regard. Come June next year this time we will be talking very positively around this acquisition. We would like to thank you particularly for your interest in Murray & Roberts. We extend a word of gratitude to our stakeholders and to our shareholders who have shown continued confidence in us. And we hope that with today's results you will realise that that confidence is well placed. Thank you.

Henry Laas
I think it is about two and a half years ago that we shared with you the recovery and growth plan for Murray & Roberts. The interesting thing is that we're approaching the end of that three year phase. June 2014, the current financial year, is the end of the period for the recovery and growth plan. And we are as we speak preparing ourselves for our new strategic future, and that is the phase that will commence 1st July this year, our 2015 financial year. Now, the recovery and growth plan had very specific objectives. And I am very pleased to say that we have achieved most of the targets and the objectives that we have set ourselves.

The first year was all about recovery. It was about the work that we had to do to sort out our balance sheet, the liquidity within the business. And then the two years subsequent to that we referred to as the growth years. I said many a time we referred to those years as the growth years not because we expected significant growth coming from the markets or anything like that. But it was really about the plan where we reorganised our portfolio of businesses within Murray & Roberts so that at the end of this recovery and growth plan we would end up with a portfolio which we believed put us in a better position to achieve sustainable growth into the future and to meet the return expectations of our shareholders.

And for that reason I have included in the agenda for the presentation some information about the recovery and growth plan and the financial impact thereof. You will see that in the third item of the agenda, and then later on also some words about the new strategic future. As always Cobus will present with me and he will get into the details of the financial performance of the group. And I must say from my side also I'm very pleased with what we have achieved in the first six months. And hopefully after we've explained the results a little bit better you will share that view with me.

Salient features, really only the highlights of the year. Ed mentioned earlier on that safety is very important in our lives. We are pleased that the lost-time injury frequency rate continues to improve within Murray & Roberts. A rate of 0.82 is within our target of 0.9. That is an improvement over the 0.85 of the first is months of the previous year. But regrettably we had two fatal incidents in the first half of this year. But the health and safety performance we believe is one of the highlights.

Revenue is up to R19 billion for the six month period, primarily due to increased revenues that came through our Clough business, which is part of our oil & gas platform. Attributable earnings, a significant increase from R262 million to R724 million. Now, that is an enormous increase at attributable earnings level, part of it due to improvements within our operation, part of it also due to profits we have made on the disposal of businesses that we have classified previously as part of our discontinued operations.

Headline earnings per share – and I'm referring here to continuing operations – 62 cents per share, up from 44 cents in the previous reporting period. That's a 41% growth. When we put out our trading statement last week and we gave some guidance on these numbers I expected that the market would be very pleased with the outcome, and unfortunately the share reacted negatively to the announcement. So that was a surprise to me. For that reason we're going to explain in a bit more detail what is actually happening behind the scenes supporting these financial numbers. We are pleased with the 62 cents per share for the first half of the year.

Net cash, R2 billion. That is up from the R1.1 billion in December 2012. The R2 billion is the December 2013 number. It is a strong cash position. That is net cash after a R4.4 billion transaction on 11th December. So that is after all the cash has flowed on the Clough acquisition, net cash of R2 billion.

Order book, a little bit down, R45 billion. We still believe it is a robust order book, and the negative movement in the order book, there is some of it in the Clough business and some of it in the engineering platform. As we continue to build Kusile and Medupi power stations we are working through the order book and we should expect the order book to decline as we work through these projects.

Disposals. In the first half of this year in October 2013 we closed out a transaction where we sold the majority of our businesses that we classified as Construction Materials businesses. The profit on that disposal found its way into the increase in attributable earnings that I mentioned earlier. To me personally the highlight is the acquisition of Clough. 38.4%. It happened on 11th December last year. Clough now has been de-listed. It is wholly owned by the Murray & Roberts group as part of Murray & Roberts. The CEO of Clough has joined the Murray & Roberts Ltd board. The integration process is continuing very well and we are very pleased with this acquisition. As the chairman has said, we think in time to come we will realise what the strategic benefit to Murray & Roberts will be from this acquisition.

Okay, safety performance. I think the graph speaks for itself. What you see in the solid bars is fatal incidents that were recorded in those periods. And the blue line is the trend in the lost-time injury frequency rate. As I said earlier on, 0.82 is below the target of 0.9. The red horizontal line is the target for the lost-time injury frequency rate. So we are very pleased with that. You can also see the improvement that we managed to achieve in the fatal incidents that were recorded in this business. We don't want to have any of our employees getting injured in the workplace. So we are pleased with the performance but deeply disappointed by the fatal incidents that were recorded in the first half of the year.

And I must share with you regrettably during January and February we had another two fatal incidents in the second half of the year. One of our subcontractors working on a building project did an illegal electrical connection and he was electrocuted. And on one of our road projects one of the workers crossed the road and he was hit by a car that travelled way in excess of the speed limit of 60km per hour in that area where the construction activity was taking place.

We are also very pleased that on 1st February, although it is in the second half of the financial year, we have launched the Palesa [?] health and wellness programme that we believe will be very good for all our employees. They will all benefit from it. But I think also the company itself, the management and the leadership in all our operations will benefit from this because this is a great service which will be provided from the corporate office to all our operations. So we are very pleased with the progress in the area of safety in the first six months of the year.

Now we get into what I referred to earlier. When I referred to recovery and growth earlier I said I need to explain a little bit more what happened during this period. Now, November 2011 was shortly after we announced the recovery and growth plan. And the first year was all about liquidity and it was all about addressing the balance sheet. In November 2011 we had a debt package which we negotiated with our banks that supported us. And I am still thankful to all the banks that participated in that process. But a R4 billion debt package was negotiated and put in place with our banks. Shortly after that, still in that first financial year, in March 2012 we had the rights issue where we raised R2 billion through our rights issue. And then June 2012 was the end of the recovery year.

Then we moved into the period of growth. I said earlier on what this growth was all about was reorganising the portfolio of businesses within Murray & Roberts so that at the end of this period we would find ourselves with a portfolio of businesses which we believe puts us in a much better position to achieve sustainable growth into the future. In March 2013 was the first really big transaction where we through Clough sold the investment which Clough had in Forge. That was a 36% investment. And I will come back to this a little bit later. For the period leading up to October 2013 we went through a very active period of selling off the non-core assets in the group that were classified as part of discontinued operations. But the big transaction was really closed out in October 2013 and R2.8 billion was raised in that disposal. And October 2013 was within the first six month period of the current financial year.

Then in December 2013 Clough became a wholly-owned subsidiary of Murray & Roberts. A R4.4 billion transaction mostly funded from cash off Clough's balance sheet. Cobus will give you more detail. Most of that transaction was funded through cash on Clough's balance sheet. When you convert it to dollars it is over $400 million and the debt that we raised was $150 million. The rest was all cash that we utilised off Clough's balance sheet. And then in the second half of this year in March 2014 we think we will close the transaction on the disposal of Hall Longmore, and we think we will do this at book value.

Now I need to take this explanation a little bit further. You will appreciate what he thinking was behind these corporate transactions. What we wanted to do is we wanted to swap the associate income from the investment that we had in Forge, the 36% indirectly held through Clough. We wanted to swap that earnings stream with earnings by acquiring the minorities of Clough. So instead of previously only accounting for 62% of the Clough business we wanted to account for 100% of the Clough business in our business. Unfortunately these two transactions could not happen at the same time. so from the date that we sold the investment in Forge, March 2013, that associate income stream that we were earnings from the investment in Forge was no longer there, and we had to wait till December 2013 where we could have replaced that with the additional income from the minority transaction on Clough. So there is an earnings gap in the first six months of this financial year, the period from July to December, where we had no associate income from Forge, but due to the sequencing of the transaction we also didn't have any benefit of the minorities of Clough in the first half of the year.

And then if you look below that line in the middle block, proceeds from the disposal of companies, we went through a process of disposing how many companies. 18 companies. So a very busy period for the corporate team that worked on these transactions. 18 companies were sold. At that stage we classified them as discontinued operations, but obviously prior to that they were part of the main earnings stream within the group. So there is still an earnings gap as far as we are concerned, which means there are acquisitions in our future. But the important thing for this presentation and for understanding the results of the first half of this financial year is from March 2013 we didn't have any income from Forge associates. If you look at the previous financial year, the full financial year to which we are comparing our results, we had the full benefit of the Forge associate income. In the first half of this financial year no associate income from Forge, but also no income from the minorities in Clough.

All right. So 2013 and 2014 are two financial years, and we refer to it as years of two different halves. Let's first look at 2013, which is the previous financial year, and then 2014, the current financial year. And you will see we are talking about half one and we're talking about half two, the two six month periods. The previous financial year in the first half at the attributable income level we had R67 million income associated with Forge. And that R67 million found its way into the calculation of continuing headline earnings per share. In the second half of the previous financial year we sold the investment in Forge in the month of March, which means there were three months of associate income in attributable income associated with Forge. But there was also the profit from the disposal of Forge in the second half of the previous financial year. However, when you calculate continuing HEPS only the R32 million found its way into continuing HEPS.

Now, what does this mean for the current financial year? If we look at the first six months we had no contribution from Forge. And the contribution from Clough or the minority income from Clough will only be in the second half of the year. So we do expect the second financial year at an attributable level to have the 100% benefit of Clough flowing through our attributable income line and it will also find its way into continuing HEPS. When you draw a comparison between the first six months of the current financial year, this reporting period, to that of the previous financial year and you do an adjustment for the associate income of Forge you actually come to a 95% to 100% growth in continuing HEPS. However, what you see on the results in the way it has been reported is that 41% increase. For the second half of this financial year we do expect a very strong half. It will come from ongoing operational improvements, but it will also come from having the full benefit of the Clough acquisition working through in the second half of this year.

You are familiar with this slide. What you see there is starting from 2010 the performance of the group at an attributable earnings level, and the solid blue line is earnings per share. That is for the half year period starting in 2010. Now, you will see that there is a brighter yellow part of that bar and there is a lighter yellow portion in that bar. The brighter yellow represents the continuing operations and the lighter yellow is the discontinued operations. Going back to the first half of 2010, that was really the last time that Murray & Roberts made a reasonably profit from its continuing operations. Then it went into the loss period. You will see the light grey shaded period over here. That's the recovery year, and then into the growth year. You can see how we started from the first half of financial 2013 that the continuing operations started to become profitable and contributed to the bottom line over here.

You will see also half one 2013 over there versus half two. And then for 2014 you only see the first half. I said earlier on it is a year of two halves. So if you want to interpret the group's results better it is better to collapse the two halves into the year result. That is what you see on the lower graph at the bottom of that slide. What we do expect is that the growth in earnings for the full year will show a continued growth as represented by that blue trend line. So we do expect a very strong second half and we do expect then for the year a strong improvement over the previous financial year. So I hope that that clarifies a little bit the understanding about what the impact of the corporate activity was on our earnings of the first six months of this year versus the first six months of the previous reporting period. All of this is part of the growth phase of the recovery and growth plan. If I'm not mistaken at this stage I'm handing over to Cobus who will take you through the detailed financials.

Cobus Bester
Thank you. Excuse the voice. If I can't finish the presentation I will ask Henry to finish the last few financial slides. Listening how he explains the numbers I'm pretty sure that earnings will be up compared to my presentation. Just to conclude with what Henry has said, you will see right here at the bottom the non-controlling interest of R139 million. About R135 million of that represents the minorities in Clough. So in the second six months of the year provided that Clough's results stay the same – hopefully will go slightly up – R135 million will fall onto the bottom line and will be included in the headline earnings per share calculation.

So revenue was up from R16.3 billion to R18.9 billion. This excludes discontinued operations. There is another R1.4 billion or R1.5 billion from discontinued operations. Obviously we don't report that any more. Most of the growth comes from Clough. But then you will see later on in Canada a slightly slower six months of the year.

EBITDA is nicely up from R764 million – remember we are comparing December to December – to R1.017 billion. You can see the depreciation of R332 million, slightly less than capex, which we're going to discuss just now. EBIT R400 million to R669 million, most of the growth again from Clough. A big turnaround in the construction business. One or two issues still in Construction SA. We will look at the details later on. But for the first time in five or six years if you take all of the construction businesses into account they are close to a break even situation. Small profits in many of the businesses. One problem contract left, and hopefully that will be out of the way within the next couple of months.

Interest, just to clarify an earlier slide that Henry put up, the R2.8 billion proceeds from sale of businesses was over a period of time. So we collected R1.15 billion in October last year. The balance was collected in earlier periods. And most of the proceeds were used to pay back the debt. We're going to look at the debt just now. When we did the Clough transaction we said that the gross debt before and after the transaction would be more or less the same. So over the last few financial years since November 2011 since we put the debt package in place we paid back all the long-term debt. And at reporting date there was no short-term debt left. We still operate on a small overdraft. But once the Hall Longmore transaction is concluded, which should be within the next couple of weeks, also the short-term debt should be totally paid back. So virtually no interest cost or a small income on the interest side for the six months.

Tax. This is a number that is a little bit higher than expected. If you calculate the number it is 40%. The reason for that is there are withholding taxes coming out of Africa that we don't get any relief for. Clough had option expenses due to the transaction that we did, not tax-deductible. So the tax rate in Clough was 32%. We haven't raised all deferred tax assets that we possibly could raise. We're in the process of grouping all the Australian companies in one grouping. There is such a thing as group taxation in Australia. That is not the reason we did the Clough transaction, but there are further benefits by having a tax grouping in Australia. Clough would save future taxes but for the first six months we've taken no benefit of the future group taxing into account.

This is the number that Henry was talking about. Obviously most of the R112 million related to Forge. There is a little bit of income from the Bombela operating company and TKC. But most of that related to Forge. And obviously in this financial year the first six months it was sold and there is no income reported from Forge. Discontinued operations. In the press release there are lots of details how that number is made up, but it is effectively made up on profit from the sale of the businesses. The operating results up to the period of sale less the tax. And I've touched on this. The R139 million should be R142 million towards the end of the year. So the little bit of minorities that is left is in Tolcon and a company called Energy Fabrication.

From a balance sheet point of view if you look right at the bottom there, the net cash, it is quite pleasing to see that we are still sitting with a net cash position of R2 billion. Gross cash of R4.2 billion and then the interest-bearing debt is split between short term and long term. Property, plant and equipment, a slight increase. We only spent capex on projects. And there is a small element of maintenance capex. And we obviously are not committing to any capex unless the projects are awarded. We will talk about the Venetia contract later on as well with a large element of capex. We are at the early stage of design. Work has not yet started. Are they are site? They're on site. So within the next six months you could see an increase in the capex, but it is all project related.

The decrease here is mostly related to the sale of the Forge business. Included in the R4.3 billion is R2.072 billion. That is the long-term portion of the uncertified revenues. We've spoken about uncertified revenues for the last three years. The uncertified revenues have come down slightly in this period, unrelated to the three large claims, Dubai Airport, Gautrain and GPMOF. But the long-term portion we've classified Dubai and Gautrain as long-term, meaning that we are not going to collect it in the next 12 months. But that number also includes a subcontractor on the Dubai Airport called Thermo. It is a flow-through for us. We carry an asset on the balance sheet and we carry a similar liability on the balance sheet.

So I think many of you have tried to calculate what the uncertified revenue is per contract. We've never disclosed it to the market because we feel that once we put it in the market it will be very difficult to negotiate a different number with your client. So the total is R1.8 billion. Most of it is made up out of the three contracts that I've mentioned. But this R2 billion should not be confused with the R1.8 billion because it includes a subcontractor called Thermo, which is a flow-through for us.

And then of course the R4.3 billion also includes our investment in the Bombela Concession Company. We took a R150 million fair value adjustment through the income statement in this period. That is underpinned by a dividend of R115 million, so it went up from R581 million to R616 million in the current financial year.

Assets held for sale. You can see big movements in the assets held for sale. Those are the companies that we've sold. What is left is made up of Hall Longmore. The assets to be realised really came down in the last six months. We've done a lot of work to clean out old stock. We are just about to close the transaction. In the press announcement we said that we are still negotiating. It is an ongoing discussion, but I can tell you that negotiations are now around adjustment account and stock to be taken over and how we're going to realise the working capital. We should get competition approval within the next couple of weeks and we are quite confident that this transaction will be closed out before the end of March.

Just looking at the cash now. Obviously we started in June with R4.3 billion and ended up with R1.9 billion on the far right-hand side. The biggest inflow was the disposal of Much Asphalt, Technicrete, Ocon and Rocla for R1.325 billion. There is a vendor loan element of R175 million, R75 million to be collected within a year and another R100 million 24 months from now.

Working capital inflow. It is pleasing to see the R600 million inflow. We predict the outflow in the next six months to do with the closing out of old subcontractors in Dubai. We've spoken about it before. We haven't closed out all the subcontractors. There would still be an outflow. We believe that we've made sufficient provision and it shouldn't have any impact on income statement, but there will be an outflow.

And then of course the Clough transaction, a R4.3 billion outflow. I haven't got a separate slide on it, but it was funded in dollar terms by A$310 million cash on the Clough balance sheet and A$156 million interest-bearing debt in Australian dollars. It is a bridge loan, a 12 month loan, much cheaper than what you can get in South Africa. We are paying about 5.4%. We're looking at perhaps taking out the bridge loan and turning it into a more long-term loan within the next 12 months. Within the next three or our months we're going to finalise our budgets for the next year and strategic plans for the next three years, and depending on what the outcome of those discussions would be we may have to look at a new debt package, provided there are interesting companies to acquire. The tax mostly related to Clough, and that is to do with the tax that they had to pay on the sale of the Forge investment.

Expansion capex, R347 million. And maintenance capex of R141 million. The R141 million for the first six months is probably a number that will repeat itself. We said R250 million to R300 million a year for maintenance capex. And then expansion capex, I wouldn't mind if it is much more than that because it means that we've picked up a lot of work.

If we look at the revenue over the last three years per platform it is obviously that the growth came from Clough. Construction was fairly flat, but up on last year. Engineering Africa going slightly down. That is the power work. Most of the work in the Engineering Africa platform is still in the power project. Underground Mining, down on last year and down on 2011. This can change overnight. We've seen it a number of times before. When there is a cutback by the mining companies they do it overnight. When the gold price or the platinum price or the copper price recovers they start spending capex with two weeks' notice. So obviously it has an impact on our results, but I think long term this is still a place where we want to be. Construction Australasia Oil & Gas, at this stage it is only Clough. The mining company that we have in Australia is reported under mining. And what you see on oil & gas is only the Clough revenue. From 2011 R3.6 billion to R9.6 billion revenue in the first six months of the year.

If we go into a little bit more detail, the segment accounts, under Construction Africa we have the roads business, civils business, three building businesses – Western Cape, Botswana and Namibia – and an open cast mining business. Included also in that block is the Tolcon business and the concession business. So over the last few years Construction Africa has lost a lot of money. Although not a big profit, if you look at peer construction, if you take out the concession business, we still believe it is a good result. We sit with an order book, low margins. You've got to work out that order book.

We are seeing the tenders are picking up. The building margins are still very tough. We recently picked up a building contract at 4% margin. That is probably the best margin we've picked up in two or three years. 4% before overheads, and overheads in that business are running at about 3%. Although the work load in the civils is quite low in some of the civils businesses we are seeing margins creeping up to 10%. So maybe there are good things to come. But you sit with the order book. You sit with committed resources. We don't see that this number would change too much in the second half of the year. But at least we are now in a profit situation.

Marine, you can see the turnover is down from R184 million to R98 million, and that is the reason why there is a small loss. Included in the R45 million from last year was the foreign exchange adjustment. That's a very nice business but they need work. They have absolutely no work in South Africa. They work in places like Indonesia, Thailand and places like that. We need work. And looking at the potential contracts in the next couple of months there is nothing to be awarded to us, so the turnover would still be well below 2012 or 2013 levels.

And the Middle East, still a small loss, but we've told the market over the last few years that we have cut back. We are running a very small office. Up until a week ago we only had one contract which was the Abu Dhabi Hospital where we have a 30% share in the contract. We've recently picked up a residential project. And you can see their order book is up to R1.8 billion. We are seeing that the market is coming back in the Middle East, which is encouraging. About two years ago hundreds of millions of dirhams were outstanding. We entered into payment terms with the different clients and mostly the government of Dubai. They have paid most of it. I think on one contract they owe us 2.5 million dirhams, which is absolutely nothing. Leaving out the airport. The airport is a different discussion.

So all the half built buildings that you saw there a couple of years ago they are starting to finish those contracts. I don't know if you've seen it in the newspapers but in 2020 the World Trade Conference, which is a six month affair, the World Expo, is going to take place in Dubai in 2020. They are already starting to plan a whole lot of new residential developments, hotels, all sorts of things. So we are not pricing aggressively in the Middle East. The job that we've picked up is at a good margin, and that's where we want to be. So overall if you look at the percentage, 3% but slightly distorted with the fair value adjustment in the concession company. But a pleasing result.

The power programme ticks over, showing the margins that they have reported in the past. But in the middle block on the engineering side we still haven't picked up enough work outside the power programme. There is a loss in Concor Engineering and the water company, Murray & Roberts Water, hasn't picked up any new work but is in line for a number of new projects. So we see for the full year the power programme similar performance is expected and an improved performance from the non-power programme companies.

Underground Mining. Last year this time we spoke about four problematic contracts in Cementation Africa. Three of those four contract issues have been resolved and we are left with one problematic contract, the Mpumalelo contract for Sasol. Very difficult contract, difficult ground conditions, a tough client. They're all tough. They don't give money away. So we still have losses coming through on Mpumelelo. The rest of the contracts are doing well. We started work at Venetia. We haven't taken the full contract value into the order book. We said last time it could be between R6 billion and R8 billion worth of work to us. We have only taken in about R160 million if I'm not mistaken on Venetia, which is really the early works. The R6 billion won't be awarded to us in one tranche. We will probably get the contract over a period of time. It is a six to seven year contract.

Australasia, although the order book is up you can see the turnover is down from R552 million to R363 million. And if you convert that into dollars that is really very small. So still making a small profit, still maintaining their margin, but it is really insignificant at this stage. The mining projects are...there are not a lot of opportunities, although we have picked up work recently and you can see the order book moving from R831 million to R1.3 billion.

Then the Americas, which is really Canada, the R67 million profit was impacted with the buying out of our partner in Chile. We haven't really picked up a lot of work in Chile. Maybe we didn't have the right management there. We were in partnership with someone else. We have now bought them out and the company is now 100% Murray & Roberts. We've appointed new people, and hopefully we will see some action coming through from Chile. But the R1.8 billion down to R1.4 billion is the real problem. The order book R3.6 billion to R3.7 billion, steady, but should be much higher than that.

And then the good news for the year – and this performance will continue – is the performance of Clough. You can see all their business units engineering, feasibilities, pre-feasibilities, detailed design. Engineering turnover is up. Profit is up. Margins are up. Projects are coming slightly down. We've made provision for liquidated damages on two completed projects. We feel that we are very conservative in doing so. The client has made no noises about this. Hopefully they will not charge us liquidated damaged, and if that's the case it will come back to the bottom line. Commissioning and asset support, which is something we spoke about at length at previous presentations and one-on-one meetings. You can see again the aggressive growth on the revenue line. Margins are up. The margins you see on engineering, projects and commissioning and asset support, that is after overheads of those businesses. So it is an excellent performance. To achieve 16% margins after overheads is very good.

Fabrication, that's the facility in Thailand. We're finishing off a job. We will sell that facility. And the R248 million includes option costs in the close-out of the minority transaction, R67 million. So if you take the R67 million out of the R248 million you get to the true corporate overheads, which is 1.7%, which is sort of in line with what it should be. So we have reported 5%. This is really the only business where we are achieving the margins that we set ourselves to achieve. Henry will talk about margin aspirations just now. We've said that our aspiration is to report between 5% and 7%, but obviously different margins in different businesses. For example, in the construction business if we can get 3% margin in the pure construction business it will be a great achievement.

Discontinued operations I don't want to spend too much time on. The R155 million that you see on the order book is just the work that we do in Hall Longmore. Obviously that will disappear as we sell the company. And the numbers that you see here are before tax numbers. And the numbers that you see on the face of the income statement are after tax.

From an investment margin aspiration point of view obviously we are not between the 5% and 7%. Only Clough is on the 5%, and we believe that they can improve on the 5%. The gearing is currently sitting at 43%, and the reason why gearing is now higher is the R4.3 billion cheque that we had to write out for the minorities of Clough. R2.3 billion of that was an entry in terms of IFRS against equity. The chairman of our audit committee, who qualified many years ago in the UK long before IFRS was introduced, cannot understand it. I must say even the auditors at the back think it is quite strange to do such an entry, but that's how it works.

If you buy a company and there's a difference between acquisition price and book value the difference is goodwill, and that's the entry. But if you already had a controlling stake in a company like we had in Clough the difference in book value and what you pay goes against equity. So our net asset value was R7.5 billion in June. The net asset value now is R5.5 billion or something like that. And that difference is the entry that we had to do in terms of IFRS for the acquisition of the minorities in Clough. It makes absolute sense to a lot of people, but most people don't understand it. So the gearing is 43%. Hopefully it will work its way out. Once we dispose of Hall Longmore and collect the vendor loans – because total vendor loans are just over R400 million – on these 18 companies that we've sold there is a good R1 billion still to be collected. Then of course we still sit with this uncertified revenue of R2 billion that will be collected also over a period of time. So debt will hopefully disappear, profits will grow and net asset value will get back to the level where it should be.

Henry Laas
When Kobus discussed the cash position within the group he did say to you that we do expect some working capital to flow out in the second half of the year, and the board has decided not to pay a dividend for the first six months of the year. We will consider that position again towards the end of the financial year. There is a story that I want to tell you. I don't know what the heading of the story must be. Maybe I must say it's always nice when a plan comes together.

Now, I don't know whether you know what has happened in Australia recently as far as Forge is concerned. I am going to start off by saying when something goes terribly wrong in any business I feel sorry for that business and it is really not something that one should take pleasure from. But at the time that we as a board had to make a call s far as our investment in Australia is concerned we were faced with a choice. Either selling the 36% which Clough held in Forge and after that to take out the minorities in Clough, or the other way around would have been to first take out the minorities in Clough and in the second transaction sell the investment which Clough had in Forge.

And the concern that we had at the time was when we bought Clough we knew that we would pay a premium for the acquisition. And if Forge was part of Clough at the time you would also pay a premium on the value of Forge in that acquisition. Our concern was whether we would achieve the same premium during the disposal of the investment as the premium we would have paid as part of the Clough acquisition. So we decided to do the transaction the other way around, sell Forge first and then buy the minorities in Clough. We sold Forge in March 2013.

And you will see on the cash that we brought R1.8 billion of cash in. that transaction was at $6.05 a share. In November 2013 the share price dropped to below $1 per share. Forge had a trading halt at the end of October and early this year, I think late January, the banks withdrew their support from Forge. So Forge is no longer there. And Clough is currently in discussions with some of the clients for which Forge was doing projects to step into that position and to start taking those over. So I think the nice thing about it was it was absolutely the right decision that was taken by the board at the time when it was decided to first sell the investment in Forge and then to acquire the minority stake in Clough as a second transaction.

Order book. I said earlier on that the order book is a robust order book. The numbers that you see on this slide is slightly different to those you saw on the salient features slide because in this order book we have stripped out the remnants of Construction Products and where they find themselves in the order book. Down from R47.4 billion to R44.7 billion. You can see where the movement is. Slightly down in Construction Australasia Oil & Gas and Minerals, which for now is only Clough. And also slightly down in Engineering Africa where we see us working ourselves through the Medupi and Kusile power programme. Again these numbers is comparing December 2012 to December 2013.

Outlook. The purpose of this slide is just to give you a view on how this order book is distributed over time into the future. The two top platforms are the regional platforms, and by that we mean they operate on the continent of Africa and the Middle East. And the bottom two platforms are the international platform. You can see how the order book is distributed over the remainder of the 2014 financial year and then the next two financial years. You can see at the bottom of this slide R15.8 billion secured in the second half of this financial year. And earlier on you saw that we achieved R19 billion in the first six months. So R19 billion in the first six months and R16 billion secured for the second half of the year. So our revenue for the year will be at least R35 billion. And then R21 billion is already secured for the new financial year, and that is about 60% of what we will report as revenue on the current year.

Kobus referred earlier on to margin aspiration. On the far right-hand side you will see what we think we potentially could earn as a margin in these businesses. Our Construction Africa & Middle East business is a business we don’t think will really give us more than 5% on a sustainable basis. It is a low margin business, and we show that as less than 5%. But all the other platforms we feel confident that they should be able to get into the range of 5% to 7.5%. What does the range mean? The bottom end of the range is 5%, which is really the type of margin we think we should be achieving under difficult market circumstances. And the upper end of the range is what we think we should be achieving when the market is buoyant. For the group as a whole we are looking at a 5% to 7.5% margin aspiration. And for that reason you will remember Kobus’ one slide had a red block next to margin because we were just below that 5%. We didn’t find our way into the desired range of 5% to 7.5%.

Just an update on our major claims. Let’s talk about Gautrain. There are three claims grouped on the Gautrain, the first the delay and disruption claim, then the water ingress claim and then the Sandton cavern claim. As far as the delay and disruption claim is concerned the amounts that we have taken to book in our uncertified revenues related to Gautrain is on the delay and disruption claim. There is nothing as far as Sandton cavern and the water ingress is concerned. The delay and disruption is a complex legal process that is progressing well. Our chairman is an advocate and she confirmed at the board meeting yesterday that what we are doing from a legal point of view is the right thing to do on this claim. But we don’t’ expect that this will be closed out sooner than 2016.

So what are we currently busy with? The rest of this financial year and calendar year into the first half of the following calendar year we’re busy with a period where we say we are dealing with separated issues. There are a number of separated issues that are going through a process with the arbitrators. On each of these separated issues from a legal point of view a principle gets determined and the legal position ultimately informs the big claim. So we will have at the end of this separated issues period and the arbitration process around that, which we think will run up to about March or April 2015, by then we will have a very good understanding of the legal base supporting our claim. We are very confident about the process. But this has been a long process, very much drawn out. And whatever award is made to the Bombela Concession Company – and we are a 34% shareholder in the concession company and 45% in the civil joint venture – through the arbitration process interest will be awarded as well. And that will date back to 2009. It may be that the interest charge may be greater than the value of the claim itself. So that’s a big thing in our lives and we’re working on that. We’re pleased with the progress to date.

The water ingress, you are familiar with the ruling that was made in November last year. It was against us. The ruling was in favour of Province. What that means is we need to do more work from the Park Station to the Rosebank Station tunnel section of Gautrain. At this stage we don’t know what the technical solution is. We are working on a technical solution. We have appointed our experts and our design consultants. We think by September this year we would have an idea of what the implication of this would be. And for that reason we have not provided for this in the reporting period. I don't think we will be able to do so at the end of the financial year, so it is a contingent liability within the group.

Having said that, we all know that the arbitrators were very clear in the ruling that the tunnel and the way in which the water drains through the tunnel presents no real risk to the safe operation of the system. But it is a matter where a certain specification was agreed to in an agreement and the interpretation which Province has around that specification was ruled to be the correct interpretation.

Sandton cavern, there was a ruling in favour of the Bombela Civil Joint Venture on the principle of this Sandton cavern. The quantum hearing of that will commence sometime in 2015, and we do expect some favourable award on that. So the entire saga around Gautrain is really dominated ultimately by the delay and disruption claim. We did get a bit of a set back with the water ingress claim that was ruled against us, but in the bigger scheme of things everything is overshadowed by the delay and disruption claim.

GPMOF, that's the project that we've built at Barrow Island on the west coast of Australia. I must tell you that we are extremely pleased with the way in which the arbitration is progressing. There are a number of claims, and all of these claims we refer to as change order requests. There is one of them, core 18, which relates to the design change. And that claim by itself is the greatest part of the total claim that we have between ourselves and Boskalis. We were a subcontractor to Boskalis on this project. And just a statement I want to make, and this applies to all our claims, the value that we've accounted for in uncertified revenues on these three claims is only a percentage of what we think we're entitled to. And I think we've done that far in other presentations to say maybe 40%. So our entitlement that we are pursuing is much greater.

GPMOF is exactly the same. So we're working on core 18. The merits were ruled in our favour through an arbitration process. That was challenged by the respondents to our claim. There was an interim award on a certain technical interpretation of the first ruling. That interim award wasn't in Murray & Roberts' favour. Then that ruling was challenged through the courts in Western Australia. Our respondent to the claim did not perform very well in the court process. Before the judge could pass his ruling they withdrew their appeal to the previous interim award. And as it is now the hearing is going to commence on 7th July. So that date that you see in the middle of the GPMOF block should read 7th July 2014. Then the hearing on the quantum will commence. And we are actually pretty confident that we will see the money by December this year on this claim.

There are a number of other claims which are also progressing, and again in one instance the respondent to our claim, Boskalis, tried to consolidate some of these claims into a certain process. We didn't want that, and the arbitrator ruled in our favour that they will not allow that. So we are very pleased with the progress we are making. But I must also say that we are in discussion with Boskalis. Their ultimate holding company is in the Netherlands. And we hope that we will close this out in F2015 at the latest. Now, if we do everything through an arbitration process it will take us much longer than that. But we believe that the favourable quantum ruling on the hearing that will start in July will accelerate the willingness of Boskalis to have a negotiated settlement with us.

In Dubai Kobus mentioned earlier on that a lot of the debtors that we had, a lot of it with the Dubai government, have been settled over this recent past. The Dubai government has reached settlement agreements with many contractors in the Middle East where they had disputes between them and those contractors. And we are in discussions with the authorities in Dubai as far as our claim in concerned. So we are hopeful for a negotiated settlement. If we don't achieve that we must really prepare ourselves for a very long drawn-out arbitration process that may take as long as Gautrain. But we are hopeful that we could succeed with the negotiated settlement.

On the Competition Commission there is really not much to be said. Just to make sure we are all on the same page, there are five remaining matters that we have not settled yet with the competition authorities. We wanted to settle it long ago and we are waiting for the Competition Commission to engage with us on this matter. Four of those were not settled as part of the fast track process because the competition authorities had already completed their investigation prior to the commencement of the fast track process, so they didn't want to include that in the fast track process. But we are in discussion with them and we will settle that soon. We have provided in the 2013 financial accounts, in other words the previous financial year, for a penalty on those. We have committed to take action against the six former executives that were implicated in these transgressions, and we have done so. We are engaging with them on this matter, but that process is underway.

Just at a very high level a few words about each of our platforms, the prospects for these platforms. Construction Africa & Middle East. Where's Jerome? Right at the back. Before this morning's presentation Jerome said to me, Henry, you have to do one thing. I said, what is that, Jerome? He said, please tell the people that we made a small profit in the first half of the current financial year for the first time in many years. I didn't really intend to talk much about it. Jerome, I am saying the same thing. I hope you are very pleased. When you strip out concessions and you strip out Tolcon our projects business within Construction Africa & Middle East is break-even or small profit in the first six months.

Having said that, in the local market we are still faced with very low margins, stiff competition, and in the Middle East we see early signs of improved market conditions for us. But Construction Africa & Middle East we don't think within the next year or two will be a substantial contributor to attributable earnings within the group.

Engineering Africa, the renewable energy opportunities are on the horizon and we think that in the first half of the new financial year we're very well positioned on a number of renewable projects as subcontractor to the main contractor, which is the party to which the contract will be awarded. We are very well positioned. I think financial close on these between the main players is scheduled for August 2014, which is at the beginning of the new financial year. and we think that we will benefit from that process. Medupi and Kusile are performing well for us. The water Kobus has spoken to. We don't have any water project currently underway. Concor Engineering and Wade Walker are still battling to break into the engineering market in a substantial way. But as it is now there are a number of material tenders out, and if they are awarded in our favour then we will benefit from that.

Our mining business has mixed results. In South Africa we're battling a little bit because of this project for Sasol, Mpumalelo, but we're doing fantastically well in Zambia. A very strong contribution from Zambia. The Venetia project in South Africa has not yet started to contribute to our bottom line. It is very early days. You heard Orrie confirming to Kobus earlier on that we have people on the ground, so that project has started and we will see the benefit coming through.

The Americas, let me talk about Canada. Canada is a very important part of this global Underground Mining platform. Relatively small contribution in the first half of the year. compared to prior years it is actually quite a significant drop in earnings from that business. Currently tendering on a number of interesting opportunities. We think that we're through the tough times in Canada, and there is opportunity for us into the future, and that business will contribute and have a better half in the second half than what we saw in the first half of this year.

Having said that, in the USA we just secured two projects, one at the Kennecott copper mine and the other one at the Eagle nickel mine. Two big contracts for our business in the USA. And I think their order book is full for the next financial year on the back of those two projects.

In Australia still very tough market conditions. Kobus showed the relative size of that business compared to other businesses in that platform. They are looking at opportunities in Indonesia and South-East Asia for new work, but Australia is tough for this business. This is how we have learnt to know this commodity market. It is cyclical. It has got deep troughs. It has got high peaks. But overall it is a growth market and we're confident that we understand the dynamics of the market and it is a very important platform for the group.

Australasia, which is the Clough business, the acquisition is completed. We had a good first half. We expect a better second half. The order book is a little bit down, but we think it is a robust order book. And the plan always was to grow business in Clough more into engineering, commissioning and asset support. That process is developing nicely, and we are very pleased with the progress that has been made in that regard.

This is a very important slide. Let me just explain it. On the left-hand side is a pie chart on revenue and on the right side is earnings before interest and tax. And we've modified it slightly. That is before corporate and Clough transaction cost. So the overheads within each of the platforms reported in the number, but the corporate overheads and the Clough acquisition cost is excluded from that. And you can see the green represents Clough, the blue is the mining platform and then that yellowish colour is engineering and the red is Construction Africa & Middle East. For the first half of this year 70% of our revenue was earned in our international platforms, being the oil & gas platform and the mining platform. 30% in the regional platforms. When you look at EBIT, 80% in the international platforms and 20% in the regional platforms. So our international business for us is very attractive and it is really part of our new strategic future how to derive more benefit from the position that we have created for ourselves during the recovery and growth phase.

You are familiar with our business model, but just to take you through it again. There are four operating platforms within the group. Two of them are regional, two of them are international. That is the way in which the group is structured. We focus on three market sectors, infrastructure and building, mining and energy. When you look at the value chain of project development you will see there are four main segments in that value chain. Today about 80% of our business is undertaken in construction works. When you look at the profitability in planning and engineering, operations and maintenance there are much better margins to be earned in those segments of the value chain. I will get back to that just now. And the geographic regions that we are focussing on you can see on the screen. So that's the business model for Murray & Roberts at the end of the recovery and growth phase.

And I mentioned earlier on we are busy putting a plan together that we refer to as the new strategic future. I'm not going to say too much about it now because it is work in progress, but there is a lot of detail in an article in the Robust Magazine, which is in the handout. I said it many a time that if we don't have a clear plan by June 2014, the end of this current financial year, for this new strategic future we're not in too much of a hurry to get that clarity. If we do so no later than 15th June that is also fine for me. It is more important to me at this stage for us to get the right plan for Murray & Roberts moving forward.

The way in which the business is structured now with the four operating platforms we believe is a solid foundation. We can grow off this foundation for the next year or two without even implementing a new strategic future for the group. But we are very keen to take the group on a new path.

So just a few points. For us it is important to increase our engineering focus. And the natural resources markets are very important to us. That is where we see we want to play. Our international platforms we're very keen to grow. So the oil & gas, which for now is only Clough. We would like to see more than one business in that platform. That's important to us. The mining business, we will see how we could increase our market share in that niche market, so that is important for us. As I mentioned earlier on when I mentioned the value chain currently about 80% of our business is in the construction space which is really very difficult to differentiate yourself in. It's like a commodity. And for that reason it is very competitive, it is very low margin, and we believe that we can enhance value if we increase our participation in other segments of the value chain, in other words into the engineering space and more so in the operations and maintenance as well.

We are reaching the end of the presentation. We have a plan for Africa. We've spoken to you about this before. What you see in the yellow shaded countries is where we do have a presence. We refer to our strategy as a hub and spoke plan. What that means is in West Africa Ghana is the hub. We've got an office established in Ghana, and we want to work from Ghana as a base into the neighbouring countries. In Central Africa Zambia is the hub. We have established an office in Kitwe. Out of that office we will serve the neighbouring countries. And next week Friday we are opening the office in Maputo in Mozambique. We are keen to participate in the opportunity around oil & gas and the benefit Clough brings to the group post the acquisition in December of last year.

Global reach. When people talk about Murray & Roberts we should understand that Murray & Roberts is not only a South African construction company. We operate globally and the regional businesses contribute 20% of our EBIT at this stage. So the international platform is very important for Murray & Roberts. Just a comment here for those if you who do not know, we have a sponsored level one ADR programme. It is run by Deutsche Bank since 2009. And our disclaimer you're familiar with. And you can see on that empower logic certificate Murray & Roberts is a level two contributor. And there are no other construction companies that are a higher level contributor than what Murray & Roberts is. Some of the other construction companies are also on level two, but that is the top that you would find in the construction space.

Ladies and gentlemen, I think that brings us to the end of the presentation. We are now open for questions. I'm going to ask Kobus to join me in the front here if his throat permits him to participate in this session. We have a couple of microphones that we can move around in the room. But please feel free. Yes, Roy.

Roy Campbell
Thanks. Roy Campbell from Morgan Stanley. Two questions please. Is there any timeframe stipulated in the findings for your return to work on the Gautrain as to when you need to start or when you need to complete that project to get it within spec? And the second one is really an assumption. To the extent that you would receive any cash that exceeds what you've recognised in your uncertified revenue on GPMOF I assume you wouldn't be able to allocate that to the other two projects so that would need to flow through the income statement.

Henry Laas
To answer your first question, what the arbitrators ruled was that we have to implement a solution. In other words, we have to fix the tunnel and we have to actively start working on that. There is no timeframe specified. In discussions with Province we agreed a process with them. And the first part of the process is to get experts appointed and to get the design consultants appointed, because none of us today have the technical solution for that work. We don't know what needs to be done. We don't think that a grouting solution would necessarily reduce the water inflow to a point that that specification is met. We also don't know what the implication of whatever the technical design solution is may be on the operations of the system. If it means that we have to stop that system for a year or two years to do whatever work is required within that tunnel I'm not sure whether that would be acceptable to the commuters and that would be acceptable to government. So at this stage there are a lot of questions to be asked on this. By September this year we hope to be closer to understanding what the technical solution is, if there is one, and what the implication of that is going to be. I think Province is comfortable with this process because they are intimately involved with our teams working on this.

To answer your second question, there are three major claims that we have taken uncertified revenues on that we have on our balance sheet. Now, let's assume we do get a favourable outcome on GPMOF and that claim that is eventually settled is at a value higher than what we have accounted for as uncertified revenues. The difference of that will flow through the income statement as a profit and we will not offset that against the uncertified revenues of the other two projects because we still believe in the merit of our claim. So that won't first of all be accepted by our board or by the auditors for us to do that. Obviously the full benefit in terms of cash will be there, the full settlement value. Does that answer your question? Okay. Any other questions?

Steve Meintjies
Steve Meintjies, Imara SP Reid. We're all familiar with the competition here. Could you give us some background as to Clough's competition? Are there any companies on a similar strategic path?

Henry Laas
Could you repeat that question?

Steve Meintjies
Some background to the competition that you have in Australia.

Henry Laas
Competition in terms of business?

Steve Meintjies
In peers.

Henry Laas
Okay. All right. Clough is an engineering and construction company, as Murray & Roberts is, and it focuses itself on the oil & gas market. That market has been a very attractive market to these types of companies in Australia. So there are a number of them that are competing with Clough. I think when you look at Osenko [?] that's a company. When you look at WorleyParsons they're competing. If you look at other companies as well, they are all competing. You ask yourself what does that really mean as we approach the end of this phase of greenfields

capital spend in the oil & gas market. It's important to understand that Clough is in a unique position in that it acquired some time ago a company called E2O. And E2O stands for engineering to operations. What this company actually does it is brings a project at the end of its construction phase into operation. What it also does it works on these projects during the rest of the life of those projects when they do shut-downs and major repair work on certain components. So we see that as a very important part of Clough's business. So that will grow. There are other companies targeting that opportunity as well, but I think Clough has got an advantage over its competitors because of that early acquisition of E2O.

Another element of the business which I think we're facing very little competition in is Clough established recently a joint venture that we call the Clough-Cowans joint venture. Cowans is a company in Korea. And the business of this joint venture is to commission not only oil & gas equipment but other equipment that is used offshore. And this commissioning happens in all the major shipyards in Korea and even in China. That we believe is a niche opportunity that Clough has identified for itself, has established this joint venture, and I got feedback this morning from the CEO, Kevin Gallagher, who just returned from a trip in Korea and very excited about the prospects for that business. So we must not think that we will not face competition in the traditional markets in Australia. The competition will be there. It is all a question of how we outsmart the competition. And I think the E2O acquisition was timeous when it happened, and the Clough-Cowans joint venture also very timeous, and that is going to give Clough an advantage. Other questions? It is either a very good presentation, Kobus, or I don't know. It was a very good presentation. Okay, thank you very much.

END OF TRANSCRIPT