Conference call transcript

25 February 2016

RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2015

Ed Jardim
Welcome to everybody in the room and also welcome to all of our stakeholders on the webcast and the call. Safety first in everything that we do. From an emergency evacuation point of view you have two exits off of the floor. The first one is to my left, the door over here, and left again. There is an emergency evacuation door there. Please make your way to the ground floor, out and around the building to the public parking space across from the building which is the emergency assembly point. Your second evacuation point is out the door to my left. There are evacuation points on either side of the lift. Please make your way down to the ground floor, out the main entrance towards the public parking space across from the building which is the emergency assembly point. We have no introduction from the IAS today but our Chairman, Mahlape Sello, would like to say a few words before Henry and Cobus takes us through the slides. Thank you.

Mahlape Sello
Thank you, Ed, and welcome everybody. Before I go into my little notes on what I would like to pick up with you today I must point out that I think… I think it is a matter we will take offline. There is a pecking order here at Murray & Roberts. I see Cobus and Henry have the sophisticated [unclear] and Ian and I are reduced to using a roving mic. But I guess if it works it doesn't matter how it is done. I would like to welcome you to the Murray & Roberts interim results for the year ended 31 December 2015. I would like to make a special welcome to our analysts, shareholders and media present here today. I understand that we have dial-in call and stakeholders via webcast, and I would like to welcome them here today. Due to a number of reasons but chiefly diary commitments unfortunately most of the members of the board of Murray & Roberts are not present with us today, but on their behalf I would like to extend a warm word of welcome and they are glad for your participation.

As indicated before Henry and Cobus get down to the details of the figures I thought it might be appropriate to share a few thoughts with you and in particular to remind ourselves of the context within which we have achieved the results that we are presenting here today. I am speaking to the converted, and I know when I say that the general global macro picture is quite uninspiring at the moment and growth has been generally flat 2015 into 2016. Globally we have seen a fairly moderate growth rate at 3.1%, much in line with 2015. And we note it has been the slowest growth pace since the crisis. There are some analysts who believe the emerging markets will improve modestly in 2016 from 4% to 4.4% but there are certainly global concerns as far as the US and China in particular are concerned.

Forecasts are for gradual slowdowns, but as we say no hard landing in China. As China sets the sentiment for most of the commodities the predicted slowdown in their growth has an impact on commodity clients globally. And that in turn if you understand their make-up will impact on us. Their ability to spend on capex and projects is significantly adversely impacted at this point which of course in turn will impact on most of our platforms but chiefly the mining platform within Murray & Roberts. It appears though that the markets will remain volatile in the short term and stabilisation in oil and China will be necessary for a sustainable shift in this current negative sentiment.

Now, what do things look like from a South African point of view as far as we are concerned? As with other commodity exporters South Africa in 2015 faced slower economic growth and a weaker currency on the commodity slump, particularly metals and energy followed on from a decade of mainly price increases and investment into extraction. The overall economic outlook in South Africa remains poor with a threat of a downgrade looming. The economic growth forecast is only 0.7% in 2016, and this comes on the back of a relatively broad base on which we have seen rising pressures on consumers from rising inflation and interest rates.

General sentiment remains at an all-time low over a 20 year period and should turn in order to see a turn in foreign investment spend in South Africa. Foreign investor sentiment towards South Africa is currently low. The economic climate and market volatility is not doing much for that sentiment. We have seen very minimal improvement in government infrastructure spending. Since 2012 government has repeatedly committed itself to trying to implement infrastructure spending in order to drive economic growth. As was said in October of 2012, R845 billion was projected to be spent on key infrastructure projects over the period 2013 to 2015. This however has not always been realised. 2015 saw a budget speech that committed R830 billion over a two-year period, and this budget speech of 2016 projects R870 billion.

We take heart from the fact that the Minister of Finance, Mr Pravin Gordhan, prioritised infrastructure spend in his budget speech this year. And we hope that the commitments made will come to pass. Even if it does, however, we do accept that we won't see a result of that in the calendar year 2016. These things have long lead times. If government speeds up on this we should begin to see some changes only in 2017 at the very earliest. The current plan is to drive investment by state-owned enterprises in road, rail, public transport, water, electricity and community infrastructure. These are the areas that we play in and we expect that most of our platforms will be able to benefit from this.

Now looking at the international environment and I'm particularly interested in the oil area or in the oil sector because we have an oil & gas platform. Oil prices have seen a significant drop, down 70% since the middle of 2014. And this is almost near a 12-year low. This has significantly impacted on us through our oil & gas platform with order book and revenues over the past few years coming to an end or being significantly impacted upon. Currently our view is that the outlook on oil is mixed with short-term depressed conditions as we currently experience to this day. We do however expect the outlook to improve, though a material recovery is unlikely in this current year. Demand and supply fundamentals will most probably recover in 2017 even if to only $40 per barrel. That will have a significant impact on that platform.

In such a challenging oil and commodity price environment therefore the group has had to adapt its business model, and this it has done predominantly through enhancing its specialist engineering, commissioning and asset support maintenance capabilities, all with a view to complement the construction activities which are currently underway within the group. These services we find yield higher margins and carry lower risks than services provided in the construction segment of the project value chain. And we anticipate that we will begin to see strong results coming from this change in the strategy.

As indicated as with the oil commodity prices are forecast to remain weak with the outlook still largely negative going to the end of 2016 and probably into the start of 2017. As far as our South African operations are concerned the main sector we are interested in is the construction sector as we know that this is a sector that is a significant contributor to employment in South Africa. And this sector has been under tremendous pressure since 2010 and there is unlikely to be a significant recovery in the short term. I expect South African companies operating in this sector to experience a decline in order books and we expect to suffer the same consequences until the commitment made by Mr Pravin Gordhan yesterday comes to be. Some of you were present at the WHBO interim results and Aveng, and I'm sure you heard this general complaint within the construction sector across the board. As things stand a major public sector capital spending is undertaken by three major players, SANRAL, Transnet and Eskom. If things remain the way they are we are unlikely to see significant change in the sector. Other SMEs have to step to the fore, and only then can we expect that there will be change.

What is the economic and the financial context, and therefore what is the context in which you shall be hearing the results that we published today? As I indicated we are exposed to the global natural resource sector, and we have been trying to navigate our way through these trying times and challenging trading conditions. As far as the future is concerned we do not anticipate any immediate change to the subdued outlook in the infrastructure and building business. As far as the power and water business platform is concerned we have started and we will concentrate on accelerating the replacement of work related to the Medupi and Kusile power projects which in the near future we will begin to see wind down. As far as prospects in the oil & gas platform are concerned these remain strong even in the current trading price of the oil, although projects we anticipate will only come to fruition in the medium term. We remain optimistic about the underground mining platform. That platform experiences prospects which although investment in new mining is almost non-existent at this time it should relatively benefit from anticipated growth in infrastructure replacement opportunities in mines that are currently in operation.

Against the background of this subdued global and local economy, persistent weak demand for commodities, resulting prices and low investment in fixed capital in South Africa the group has increased its earnings and continues to consistently review and adjust its cost structures accordingly to market requirements. Against this background I would like to invite our CEO, Mr Henry Laas, and our CFO, Mr Cobus Bester, to share with us the detail of the interim results. Thank you.

Henry Laas

Thank you, Mahlape. Good afternoon, ladies and gentlemen, and welcome to this presentation. We started off by inserting this picture of one of our underground mining projects because the Underground Mining platform had a very good first half for this financial year. We are very pleased with the strong performance and our expectation is that the Underground Mining platform will have an equally good second half in this financial year. As you can see on the agenda Cobus will share the presentation with me. The important thing is what is the take-away from this presentation? There is a lot of information that will be shared with you, but when you leave this room what is it that you should remember about today and about Murray & Roberts?

I think the first point which is very important to keep in mind is we are busy with a strategy which will give Murray & Roberts an increasingly larger exposure to the international market. And we are focussing specifically on the natural resources sector. As a consequence of that the group is going through a change, a change from being predominantly a South African construction company to an international EPC company that is focussed on the natural resources sector. The strategy has already started to take effect, and as a consequence of that we have quite a large exposure at this moment in time already to natural resources. We know that this sector is in a very difficult space at the moment, and as a consequence Murray & Roberts is navigating through these very tight trading conditions.

Commodity prices remain weak. We know that many of the producers are actually in a battle for survival and there is quite a large cutback on capital expenditure in this environment. If that happens it leaves us with few opportunities to undertake our work. So against that context I think it is really pleasing for us to report that we were able to increase our earnings before interest and tax. And there are reasons for that. Because of the international exposure that we have as a group there was a foreign exchange benefit that we accounted for in the first half of the year. As I already mentioned we had a fantastic performance and contribution from the Underground Mining platform. That was partly offset on the one hand by decreasing contribution from the Oil & Gas platform. We also had to take some impairments in the Power & Water platform.

We have communicated to the market before – and this is a consistent message with earlier communication – we don't expect financial year 2016 to show growth on the previous financial year. Whilst we reported headline earnings per share of R2.01 per share we don't think that we will get there in the current financial year. This is consistent with earlier communication to the market.

The order book is up to R40 billion. Now, I don't think we should read much into that at this moment in time. It is nice to stand in front of you and to say that we have grown our order book by 7% in a difficult market, but I think it is too early to say whether there is a trend. Over the past 36 month period every time we report a small growth, a small growth, a small growth in the order book. But as I say I don't think we are in a position yet where we can say that there is a trend of growth in the order book or a declining trend in the order book. We are basically maintaining the order book around about the R40 billion mark.

But there is a strong pipeline. We have identified opportunities and these are opportunities that we know by name and that we are targeting of R558 billion. There is more detail to follow a little bit later on, but as the Chairman has said, there is lots of uncertainty around the timing of these opportunities. Specifically in the oil & gas space we don't think that at the oil price much below $50 to $60 per barrel that major capital expenditure will come back to the market. And today we are trading at $34 or $35 per barrel.

As far as the major claims are concerned – and you are all familiar with the Gautrain and Dubai Airport claims – we have been working on this now for many years. We have eventually reached a point that we have key dates confirmed for the close-out of all these claims. And I think that is a major step forward. There is visibility now, and I will share the timelines with you. There is visibility of when all these matters will be closed out. And I can tell you now the way things are stacking up today it looks like the end of 2017 calendar year we will have all these matters resolved.

When you think about Murray & Roberts what makes Murray & Roberts different to its peer group? Many companies claim that they provide a service across the project lifecycle, and very few actually do. Murray & Roberts is in that position now that we do offer a service across the lifecycle of a project. The fact that we are exposed to the natural resources market I think is another differentiator, but having said that we know that these markets are very cyclical. We understand that. We understand there are periods of weakness in the cycle. That is where we are finding ourselves now. But we also understand that the cycle will recover again. We are uncertain at this stage as to when this will happen. There are many people with opinions about this. You can read many views that people have, but I think the consensus is the next 12 to 24 months will remain tough. And we are preparing ourselves for that. As the Chairperson has said, we are aligning our cost structures to weather the storm for the next 12 to 24 months.

Let's move on to the main salient features, the financials for the year. Revenue of R15.3 billion is marginally down on the first half of the previous financial year, so it's a reasonable revenue. Headline earnings per share – this is diluted – on a continuing basis up from 79 cents to 87 cents a share. Attributable earnings up to R376 million. I did explain earlier on the benefit that we had from exchange differences, the benefit that we had from the strong contribution from the Underground Mining platform. And that was partly offset by the decrease in the Oil & Gas contribution and also impairments in Power & Water. But earnings before tax is actually up 26% on last year. So we did have in the first six months of this year a higher tax charge, and Cobus will talk to that, but before tax earnings are actually up 26%.

Our net cash position is R1 billion and we believe it is a strong balance sheet in the current economic environment. Net asset value per share up to R15. Order book I've spoken about of R40.5 billion. New orders of R12 billion. I will say a lot more about that in later slides. But a new order for us is projects that we've basically been awarded but they are still subject to commercial close with clients. So all of that should find its way into the order book. That would be a very reasonable assumption. And then the pipeline is very strong at R558 billion that we see of opportunities over a number of years into the future.

If we take a moment to just talk about safety for a while, unfortunately in the first six months of this year we had two fatal incidents in the group. On one of our roads projects a flagman was knocked down by a speeding public vehicle and unfortunately passed away due to the injuries sustained. And in a second case one of our employees, Mike Mwenda, working on an underground mining project in Zambia, was trapped in a fall of ground incident and he lost his life in that. So we are very disappointed by that performance and we are doing a lot in the group to actually address the fatal risks in the group. If you look at your lost-time injury frequency rate at 0.78 it is marginally below the group's target of 0.8. So on a lost-time injury frequency basis I think we are doing reasonably well. There is actually not much meaning if you look at this result for the group as a whole. You need to analyse it per platform because there are different targets for each platform. The consolidated position is what you see here for the group. If you assess their lost-time injury frequency rate performance relative to the industry or the market in which they operate it is an industry-leading performance. I am very pleased with that.

So what are we doing to address the fatal risks in the group? These are the things that really keep us awake at night. How do we manage the risk that potentially could lead to a fatal incident? For that we are developing and introducing a major accident prevention programme. It is already advanced rollout in the Oil & Gas platform. We are busy introducing that to all the other platforms as well. If we can break through and get to a point where we can mitigate these risks that cause fatal injuries we will be very pleased. That is the focus for us going forward.

I also have to say a few words about the incident which happened at the Grayston Bridge in Sandton. Our project that we have there is to build the pedestrian bridge that will cross over the freeway next to Grayston. As you know we had this incident on 14th October last year where the temporary structure that was erected across the freeway collapsed and as a consequence of that there were two fatal injuries and 19 other people that were injured in this incident. So for us it was really a huge disappointment. It should never have happened, but it has happened and we need to deal with the consequences of that.

The Department of Labour is leading the official enquiry and they have decided to do a Section 32 enquiry process. This means it is a public process. It is open for media. It is open for everybody to attend. The first sitting was on 8th December, the second on 16th February this year, and the next sitting will be in the middle of April. Whilst this enquiry process is unfolding we don't want to give a view or speculate on what the causes might be that have contributed to this incident. I think we must allow the enquiry process to run its course and see what the conclusions to that would be.

From a financial point of view I can share with you that this process will eventually be closed out in a loss position. The time that has been lost on the project will result that this project will be in a loss. All the costs incurred to date up to December have been expensed, so there is no cost that we will carry forward. But we have not made a loss provision for this project just because of all the uncertainty. It is hard to establish at this stage what the loss on completion will be. There is a note in our financials to this effect that explains it in a little more detail. However, I can say that it will not be a material impact. The final financial outcome will not be material. If it is a loss it will not be material. We have got substantial insurance cover in place that will respond to this incident.

Back to the financials. It is quite a busy slide. There are two halves to it. The upper half talks about our financial results on six-monthly periods, and the bottom half of the graph is over the same period from 2012 to 2016, but there you see the two halves consolidated into an annual result. The yellow bars represent attributable earnings from continued operations and the grey bars from discontinued operations. There are a few take-aways from this slide. The first is you will notice from 2015 there was very little contribution from discontinued operations. You will recall some time ago we went through a process of disposing non-core businesses. All the construction products businesses were disposed of. And that process has basically run its course and contribution from discontinued operations is irrelevant at this moment in time for the group.

I think the second important point you will see there is the half-year result which is 87 cents per share in that little square block. That is continued HEPS on a fully diluted basis. That compares to the 79 cents for the previous period. Another important thing to see is from 2012 all the way through we always reported a much stronger second half when compared to the first half of the financial year. And we did say in our announcement that we don't expect that trend to continue in the second half of the year. We always had a much stronger second half relative to the first half. We don't think in the current year we will have a much stronger second half compared to the first half.

The group is structured from an operational point of view in four business platforms, and each of these platforms are focused on specific market sectors, and each of these platforms are headed by a Chief Executive Officer that is responsible for that business. I would like to introduce to you Peter Bennett. Peter, if you could stand up please. Peter Bennett is the new CEO of the Oil & Gas platform. He was appointed as from 1st February this year and took over from Kevin Gallagher. We are very pleased with Peter's appointment. I think 26 years of experience in the oil & gas sector specifically on LNG is very relevant experience to this platform. We really look forward to the contribution that Peter will bring in time to come. And he is joining the group at a fantastic time when the oil & gas sector is in a difficult space. You can only do better, Peter.

As far as the strategy is concerned I have touched on it a little bit earlier on. And you have seen this slide before, but I would only like to talk to a few points here. The focus on the international natural resources market segment is important for us. That is where we would like to grow the business, more international, more into the natural resources space. And secondly, this business model of ours. I explained earlier on when we took the staff through the results, what does this really mean for us?

There is a lifecycle for a project. It starts off from the development phase right through to the engineering phase, the construction phase, the operation phase, eventually the decommissioning. If you assume there is only one project that you can participate in and you are only providing a construction service you can only benefit from the project if you participate in the construction. If you provide a service across the lifecycle you can benefit financially from providing services in all the segments of the project value chain. And that is important for us. We would really like to be participating in projects where we work right from the engineering stage through the construction stage, into the operational and maintenance periods and eventually into decommissioning. It is really a long-term relationship on a project as opposed to getting in, doing the construction and exiting the project again.

The business model as is depicted there for each of the four platforms, you will see the first two platforms, Oil & Gas and Underground Mining, from a geography point of view these are our two global operating platforms. And Power & Water and Infrastructure & Building are predominantly focussed on the continent of Africa. From a capability point of view as I said earlier on we have the capability to offer a service across the lifecycle of the project. As you can see there it starts from detailed engineering all the way through to commissioning. And the Underground Mining also operations. What we refer to there is we undertake contract mining projects on behalf of our clients and we actually mine the ore on their behalf.

The project value chain other than providing us with an opportunity to participate and to extract value from other segments of the value chain, these other segments also have got better returns and have got better margins than construction. You can see there return on capital employed would be these bars over here. And EBIT margin would be those over there. You can see it is much better than what you would find in classic construction. We do have an aspiration as a group on a consolidated basis to have a net margin of between 5% and 7.5%. If you only play in the construction segment you are never going to get there. Those margins are typically between 0% and 0.5% or 1%. Very low. So if you want to improve your margin as an organisation you need to be able to participate in the other segments of the project value chain.

So how do we do that? How do we get into that position? We can go into that organically or we can do it through acquisitions. We have undertaken a number of bolt-on acquisitions in prior financial years. What you see on this slide here is not acquisitions in the current year. I will get to that on the following slide. These are small acquisitions that we undertook in previous financial years. The first one is E2O at the top left. That acquisition was in the 2014 financial year. It came off a base of R81 million earnings before interest and tax contribution. In financial year 2015 it was R144 million. And in the current financial year we think we will grow up to 10% on the number that was reported for financial year 2015.

CH-IV again in the Oil & Gas platform is a very specialist engineering company that operates out of Houston in the USA. In the previous financial year earnings before interest and tax were marginal, only R9 million. We expect that in the current financial year to grow between 140% and 150% on the financial year 2015 number. Bottom left is Booth Welsh, again in the Oil & Gas platform. It is a company that operates out of Scotland. R18 million EBIT contribution in the previous financial year. We expect growth of between 55% and 65% in the current financial year. Aquamarine, an acquisition we undertook here in South Africa, is very small. In the previous financial year it made only a R2 million contribution to earnings before interest and tax. We expect that to grow by between 600% and 700% in the current financial year.

These percentages are off a very low base and as such on absolute value it is not making a significant impact to our earnings yet. But what it does bring is the strategic positioning not only from a geographic point of view in the various markets in which we operate but also across the value chain of a project. So that was in the previous financial year.

In the current year two acquisitions, again in the Oil & Gas platform. Enercore, which is an engineering procurement construction management company based in Calgary in Canada, provides service into the oil & gas sector. We are very pleased with that acquisition. And then Merit is an acquisition in the Underground Mining platform. It is a company that works out of Vancouver in Canada. I think we have reached the point now that in these two international platforms, Underground Mining and Oil & Gas, we have achieved the international positioning that we wanted to achieve. In other words, we do have a permanent presence in all the important geographies where we have to be in the context of the markets that they are servicing. I think we have also got to the point that we are capable of providing this service across the lifecycle of a project.

I'm not saying we will not undertake further small bolt-on acquisitions. We want to grow the business. but these further acquisitions will probably be more from a point of view to say how can we bolster earnings as opposed to how can we position ourselves in the project value chain. At this very important point I want to hand over to Cobus. Cobus will take you through the detailed financials. Thank you.

Cobus Bester

Thanks, Henry. Before we go into the details I think Henry has mentioned you can possibly sum up the results on four lines. A very good performance by the Mining platform. Foreign exchange impact on the balance sheet and the income statement. And then reduced profits from Oil & Gas, although Oil & Gas is still the largest profit contributor. And then the disappointment of having to write down uncertified revenues coming out of the legacy projects, the old Wade Walker and Concor Engineering. They changed the name over the years but they never make profits.

If you go to page 40 in your pack there is a detailed explanation line by line. I'm not going to go through every line and all the details. You can follow it in your pack and you don't have to make the notes. On the revenue when we get to the segment reporting we will get into more detail per platform. But the Mining business increased the revenue by 20%. Oil & Gas reduced by about 10% or 11%. Infrastructure & Building was more or less flat. And Power & Water decreased about 14%.

EBITDA and EBIT we will cover in the segment reporting. On the interest line although there is R1 billion net cash we still pay interest. And the reason for that is that most of the cash is still sitting in Clough in the Oil & Gas. And there is a good reason for that as well. In South Africa we have the Infrastructure & Building platform, Power & Water including those legacy projects and also Cementation Africa and the corporate overheads. You will see that when we get to the segment reporting there is not a lot of cash generated in South Africa. You go through a cycle on a monthly basis and we still run an overdraft in South Africa. There are ways to reduce it, but this interest charge of about R50 million every six months will stay with us for now.

We had towards the end of the six-month period between August and November a few issues on payment in South Africa with a large client, and it was eventually paid. And there were also issues on a large project on the Clough side which I will talk about now, and that has been resolved.

The tax line is a little bit more than what you probably expected. We said to the market it will be similar to the 20% that was reported last time. This is about 27%. A few reasons for that. Where we made losses – in the Middle East we had a loss of R45 million – there is no tax relief so if there is a loss you don't get any deduction. We still have the legal expenses in Gautrain, and that is a ring-fenced company where we also don't take tax relief. But the main reason is that tax grouping in Australia. Remember a few years ago we set up this grouping and eventually we would be able to utilise all the losses made on GPMOF, a few billion Rands of losses. We would be able to utilise those losses for the profits coming through from RUC and Clough. And Clough made less profit. The forecast was that we would utilise more of the losses, and that's the reason why the tax charge is higher.

Income from equity investment is really only one. We have a 23% stake in the Bombela operating company. We declared a dividend for the first time last year in November and there is probably another dividend coming in the next few weeks. This continued operation is really very small. The only activity in this half year is the sale of the Cape Point facility and also the sale of the Chapman's Peak operations. That has been sold.

Then the non-controlling interest, last year the R10 million in 2014 still related to the minorities in Tolcon. That has been sold now. This R11 million relates to a very old contract in a company in Qatar and there was a close-out of that contract, and there was a minority shareholder in that contract. So that is not repeatable. So going forward that number would be very small if anything. Again you can follow the detail of how these numbers are made up from page 50 I think in your pack.

If you look at the balance sheet what stands out… maybe we should just look at the movements here. Current assets and non-current assets moved by R1.6 billion. So the immediate reaction would be there are long outstanding debtors out there, things that you must collect, and that there are issues. That is not the case. I said that the balance sheet effect – and we will talk about that when we get to the last slide – of the movement in the rates also goes through the balance sheet. So you have to adjust your assets and liabilities. And the other side goes to the foreign currency translation reserves that end up in shareholders' equity. So of the R1.6 billion movement R1.4 billion relates to foreign currency translation reserves. So there is only really a R200 million movement, and that is a movement in deferred tax and then the goodwill on the two small acquisitions that we made in the last six months.

Fixed assets are more or less flat. Capex was about R190 million. Depreciation was R270 million, which is always a good sign in a way. It is a bad sign in the sense that if your capex is more than depreciation it is an indication that the business is growing. If it is the other way around maybe it is shrinking, and it is the case here. So capex and depreciation wasn't quite a match. The difference again is the foreign currency translation reserve.

If we look at interest-bearing debt, the movement between long-term and short-term, there wasn't really an increase in any interest-bearing debt. The movement between long-term and short-term is just the structure of the Australian facility. Under non-current liabilities and current liabilities about a R550 million movement, of which R1.2 billion relates to foreign currencies. So that actually came down by R700 million.

Assets held for sale, the R79 million, all that we really have left are a few properties in Clough. And it has been there for a long time. There is a slow process to sell these properties, but it is not a big number. You can see in Dollar terms it is very small. And the net cash position as Henry indicated is R988 million at the end of December.

If we come back to page 19 we can follow the details from here on as the pack is at the moment. If you look at the revenue and the movement between December 2014 and December 2015, Oil & Gas is still the largest. But the revenue came down from 43% to 40%. Mining is up 22% to 27%. And then the other two businesses not much movement. From an EBIT point of view 78% of EBIT came from Oil & Gas in December 2014. Now it is 65% with Mining picking up slightly. So the two international businesses, Oil & Gas and Underground Mining, if you add it up it is more than 100% because there is a loss elsewhere in the group.

From a value chain point of view you have at the bottom here planning, construction, commissioning, operations, and maintenance. The one that we want to grow – and it has grown over the last couple of years – is the commissioning and brownfields. You can see construction still makes up from a revenue point of view a large portion of revenue June 2015 and December 2015. But from a profit point of view it is very different. 58% of the profits are coming from commissioning and brownfields. And we haven't done a lot of brownfields at this point in time. If you look at where we are making the profit and where the revenue is coming from, South Africa at the top there is at 38% in June 2015 and 36% in December 2015. But from a profit point of view you can see America and Australia is where the profit is made.

Moving on to the segment reporting, a few positives and a few points to consider on Oil & Gas. From a construction capital point of view you can see there is no revenue, the second block there. Construction fabrication, no revenue, no order book, and we don't see that coming back in the next two years perhaps. The only capital project, large capital project which is in actual fact not oil & gas is a major road and tunnel in Perth. It is called the freight link. It is a big job. There are only two tenderers left and we are at the point where the client is picking up the tender cost. Should we be successful with that job it will only start perhaps 12 or 15 months from now.

There are two parts to Global Marine, mostly capital projects, but marine work, and a little bit of engineering work. And the loss that you see there at R49 million is really the loss in the engineering office, the old Murray & Roberts Marine operating out of Cape Town. The positive is that commissioning and brownfields revenue is up significantly, and you can see profit up significantly. The slide that we put up on E2O you don't see this profit in this R353 million. It is not the same number. So the E2O profits are part of the R353 million. And there is other work that we do outside E2O. In this business we are doing a large project for Wheatstone, hook up and commissioning. And the project value increased a lot as we started the contract. And it is really just labour that you are selling to the project. There were issues around process and payment, and we had a large working capital exposure in August, September and October. That was resolved towards the end of November and we are back to a normalised position.

On Global Marine we spoke about a problematic contract there called the Wheatstone Jetty. It is a $500 million project. And we are reporting up till now a breakeven position. There were concerns that it would turn into a GPMOF. Some of you will recall on GPMOF we lost $250 million, which is a lot of money. Fortunately this job is now done, totally demobilised. We have reported breakeven in these results. We are in a process to resolve our dispute and our claims with the client. We are forecasting that it will turn into a profit-making contract. The uncertified revenues at the end of December were virtually nothing, $1.8 million. So we are quite pleased. Although for two years we have reported a breakeven this is going to turn into a profitable contract. Overall you can see a strong order book on commissioning and brownfields. In January and February we have picked up more work which is not in that number, but the capital projects are probably 18 months to two years away.

Underground Mining, a very strong performance these six months. You can see that they made 5% profit compared to the 2% last year. So if you break it down into the different regions the Americas have really got three regions. It is Canada, the USA and then South America. We have been trying for years and years to get into the South American market. The decision has now been made to tender very selectively and we will probably close the office very soon. So there is a small loss coming from South America. Canada was in a loss position last year. They have now picked up a lot of work. And the USA reported a similar number than last year.

You may have picked up in the press, depending what article you read, that there is an issue on a shaft in Canada where the client is taking us to court. Now that is not the case. There is remedial work to be done on the shaft. We have provided for that in these numbers. There is in any case a limited liability, and we don't think it is a big issue. The client had to protect their rights because there is normally a three-year prescription period. And they had to follow a certain legal process to protect their rights. We don't think it is an issue.

In Australia this business has done extremely well over the last few months. You can see the order book nearly doubled. We are starting to work on the project. It is very early days, but you may have seen the articles around Harmony and their project in Papua New Guinea. I think we are well positioned to participate in that project. It would be a lot of underground work, a lot of above-ground work. Clough has been in Papua New Guinea for many years. We have a local partner there. We know the conditions. And RUC can certainly do the underground work.

Africa turned around from the last six months, but if you go back to the six months ending June 2015 you will see that they had a much better result in the second half of the last financial year. However, there are no real issues in this business. Venetia is really the backbone of the business and will be for the next couple of years. Booysendal is in a very difficult area from a community and labour point of view, and we had some stoppages there that affected profitability. But no real issues. You can see there is a big order book number, R10 billion. R4.8 billion of that relates to Kalagadi. The Kalagadi job we are not too sure when it will start. We worked on the tender for a long time and it has been a few months now since award. They are preparing for us to start but the date hasn't been announced yet.

On the Power & Water side there are two projects, Kusile and Medupi, where we are on a commercial arrangement with Hitachi where we earn a fee and the costs are reimbursed. So one would expect a very steady profit margin. What is surprising is if you look at the order book. The order book last year was R4.4 billion and now it has gone up to close to R7 billion. We have been saying that it will tail down and we will probably be on site until 2020. I'm not too sure. Henry can comment on that when it is his turn in a few minutes. But as we go along we pick up variation orders and it is escalation etc. It is unexpected that the order book is growing. Every six months we say the same thing, that the order book [break in audio] we are closing out that contract but it turns out that it is fairly steady.

Obviously the disappointment is in the other. Let's deal with Genrec first. Genrec operates in a very difficult space. You know that they are a large steel fabricator. They have done most of the steel for these power programmes, but that work is done now. We are looking for work outside the power programme and have been trying to pick up work for a while now. There is a book value in Genrec and you have to test the book value of your assets against the future revenue stream and profits. If the future revenue streams can't support the book value of your assets then you have to impair that. We had to look now in December and we put a R36 million impairment through. It is not to say that it is the final impairment. If not work is picked up in the steel business there could be a further impairment. The total book value of that facility, which is an amazing facility, is less than R200 million. But hopefully work will flow through.

And then the legacy projects coming out of the old resource and industrial, the old Wade Walker and Concor engineering, those projects have all been completed. A view was taken last year in June that there are commercial entitlements. In fact on one of the projects, the largest one where we had to impair the uncertified revenues we won a DAB award. And on the basis of the DAB award we booked the revenue. The client is now taking us to arbitration. And as you dig deeper into the details you come to the realisation that the claim is possibly not that strong. So we have impaired on three contracts revenue previously taken. And the total of that including the Genrec R36 million is R224 million. So that is why Henry said upfront we got a bit of help from the foreign exchange which was R234 million but it is totally offset by the R224 million coming out of this business. But there are other projects outside the power programme that are profitable and we have picked up a bit of work. In the next slide Henry will talk about a very interesting power plant in George. That is all progressing and hopefully we can close out these legacy things pretty soon.

And then the last business, Infrastructure & Building. Let's start with the Middle East. There are really just four contracts left, two in the final stages. The Mafraq Hospital is the largest contract that we're still busy with. That is in joint venture with Leighton Habtoor. We only have a 30% share in the contract. There are also commercial issues to resolve. The job will be finished in August. But the R45 million loss that you see there is effectively the arbitration cost, the legal cost on the Dubai Airport. We have made a provision many years ago. I think it is now six or seven years later. We have run out of the provision. But we have decided to keep the legal costs on the Dubai Airport the same as we keep the legal cost on the Gautrain. We treat it as an overhead. And as when you incur it you write it off. It is very difficult to see what the forecast of the end cost will be, although we now have dates where we think the arbitration processes will be completed.

As far as the SA and Construction Africa businesses are concerned included in the R60 million are two items not really under the management of Jerome, the Bombela Concession Company fair value adjustment and then the legal fees on the Gautrain project which I've just mentioned. So the profit in the construction business was just under R50 million. So we have seen lots of statistics over the last couple of weeks how the industry has come down and what the average margins are. A report put out by PricewaterhouseCoopers says that the average margin currently in the industry is just above 1%. I don't want to say this business has performed in terms of the average. I think there are a lot of good projects out there. I mentioned in the staff presentation earlier this morning we went to the Menlyn shopping centre upgrade on Friday, a R1.5 billion project. If you walk around there you wouldn't even know that there is a contractor on site. But once it is completed it is a 175m² shopping centre, the biggest in Africa. And we will probably end up with a margin close to the average that I mentioned earlier on.

And then discontinued operations, really not much left. Just close-out of the things that we've sold in the last year or so. And then on the corporate and properties – and we only put this slide in for you not to add up all these segment reporting numbers and then say it doesn't balance. So if you add this one in it balances to the income statement – the corporate overheads you can see there are ongoing cost-saving measures but we've reported foreign exchange profit that came through the income statement under this heading.

Henry Laas
Thank you, Cobus. Okay, let's move on to the order book. As I said the order book is around R40 billion. On the far right-hand side you can see how it changed from December 2014, June 2015 and then December 2015. So R40 billion is the number. We have been able to maintain it at that level. Oil & Gas, you can see what has happened in Oil & Gas. It was down in June 2015 on what it was in December but since June it has crept up a little bit to R9.1 billion. Underground Mining between December 2014 and June 2015 that is when the Kalagadi project was secured and there was a R4.8 billion pickup in that order book. And we are maintaining it at just above R16 billion. Power & Water, up to R7.7 billion. The majority of that is really additional value on the Medupi and Kusile power station projects. And Infrastructure & Building hovering around R7 billion.

So this is an important slide. We monitor this very closely. On the left-hand slide in the first column you see the order book, the R40.5 billion I've referred to already. And just to the right of that is a column with the heading near orders. Now, a near order for us is a job that we have secured where we are in commercial close with the client, and subject to commercial close it will then find its way into the order book. As you will see there in the month of January R2.5 billion of the R12.4 billion near orders went into the order book during the month of January. Category one, two and three, there are definitions around those. The further out you go towards the right the less certainty there is on the timing of those opportunities and our chances of securing that work. But the order book is R40.5 billion at the end of December, near orders of R12.4 billion, and as I said of that R12.4 billion R2.5 billion in the month of January moves across into the order book.

This slide basically just shows you on the far right-hand side what the time distribution is for each of the platforms. You will see the remaining value in 2016, the value for 2017 and then beyond 2017. At the bottom on the right-hand side over here you see the total. So in the order book for the current financial year we have remaining value of R14.1 billion. You will recall that the revenue in the first half was just over R15 billion. So the revenue for the full financial year should be around R30 billion, maybe a little bit higher than R30 billion. As at the end of December for the next financial year, financial year 2017, there is R13.4 billion in the order book. I said earlier on that in the month of January there was R2.5 billion that went from near orders into orders. So that number has gone up by R2.5 billion if you were to look at it at the end of January. We still need to secure more work in the remainder of the current financial year to be executed in financial year 2017.

I said earlier on when we spoke to the staff I'm not sure whether this slide is really all that interesting any longer. I just put it in because we continue to get questions from analysts about our exposure to the commodity cycle and to the various minerals that we are doing projects on. What this slide shows you on the far left-hand side is the position in December 2014 and on the far right-hand side the position in December 2015. In the various colours you can see various minerals that we are doing projects on. I think the important point to note is that there is a good spread across many commodities. But importantly in the current order book manganese is now 30% of Underground Mining platform order book, whereas in December 2014 there was hardly any manganese in there. And that is the Kalagadi project. As Cobus has said, on site work is progressing but we have not yet received confirmation of when our project will start. The Kalagadi project is really what you see there in the manganese block of 30%.

Just a quick update on our major claims. I said earlier on we have been working on this now for many years. And we have eventually got to the point where there are key dates agreed with tribunals and with the respondents to our claims of how these claims will be closed out. There are two main areas, Gautrain and the Dubai Airport. Let's talk to Gautrain first. Sandton cavern, we have disclosed previously there are no uncertified revenues taken on Sandton cavern. When Sandton station was initially tendered it was tendered to be a cut and cover. In other words, you open it up from surface, you build the station and you cover it up again. When the World Cup was getting closer and closer it was decided to adopt a different methodology, basically to sink a shaft, to excavate a cavern and to build the station inside the cavern. That was more expensive than the methodology which was provided for in our tender, which was a cut and cover.

The merit hearing – in other words do we have a claim – that was ruled in our favour a way back. The quantum hearing was concluded in June of last year. And the award was initially expected yesterday, the 24th February. But late afternoon on the 23rd we were informed that the award will be on 2nd March. So we are very hopeful that there will be a favourable award on the Sandton cavern.

The delay and disruption is a big claim that we have against the Gauteng government. We talk about delay and disruption, but there are two components to it. The first is the cantilever bridges. The bridges were built in Pretoria where the track crosses the Jean and John Avenues. And that construction again was different to what we had tendered. The balance of the claim deals with the late land handover by government. You will recall some parcels of land were handed over two years later than what the programme called for. Now, the legal basis of these claims has already been established in arbitration and we received favourable rulings on a legal basis for each of these claims. The merit hearing for Jean & John Avenue is underway as we sit in this room. It started on Monday last week. So the merit hearing is underway and we expect an award around about April this year. If it is a favourable award we will move on to the quantum hearing which will be in the second half of this year, and we expect the award before December. The remainder of the delay and disruption claim merit and quantum will be heard together, and the dates have been set aside for the six-month period July to December 2017.

As far as the water ingress is concerned that relates to the tunnel from Park Station to Rosebank. This is a claim against Murray & Roberts or against the Bombela Civil Joint Venture. This is not a claim in our favour. There it was found in arbitration that the water ingress into the tunnel is outside of a very tight specification. The tunnel was designed to drain water and to receive water, and it is working perfectly as a drain tunnel. But the water that is draining into the tunnel is not in specification. I can invite each and every one of you in this room as you are in the clothes that you are wearing to walk the stretch from Park Station to Rosebank, and you will get out of the tunnel in the same condition as you go in. The water is in a drainage system and the drainage system is more than capable to deal with the water.

But we do have a problem. This was a ruling against us, and it was outside of specification. We need to address that. We are in a joint venture in the Bombela Civil Joint Venture. We have provided R300 million for our share of the cost of doing more work in the tunnel. The only way we believe that tunnel can achieve that water specification would be to close it for two years and to put a concrete lining in. there is no other way that you can get to that specification. There were many other things in the arbitration award which are unclear. This matter is now in court, and the court dates have been set for 6th and 7th June. On 6th and 7th June this year the court will decide how to take this matter on the water ingress forward.

The second element is the Dubai International Airport. The initial two or three years was really about a dispute between ourselves and the Dubai government to establish who the respondent to our claim is. You will recall just after the global financial crisis there was a major reorganisation and restructuring in the Dubai government department structure and we didn't know who the respondent was. That was now established to be the Dubai Airport City Corporation or DACC. So that has been confirmed. The tribunal has been appointed. The first sitting was on 8th December last year and at this stage they had to come up with a ruling on a specific matter which is a supplemental agreement that was entered into between the parties. There is an issue as to the validity of that agreement. That will be heard in March of this year. But the main hearing is April to May 2017. Again it is quantum and merit in the same hearing. We are hopeful by the end of 2017 calendar year there will be a lot more certainty on what the outcome is to all of these disputes that we've been working on for a very long time.

Platform outlook, in the interests of time I've got to talk to this. I wanted to invite the platform CEOs to talk to each of their platforms but I think I will talk to it. These are the last slides of the presentation. Oil & Gas, I think we understand where the oil & gas market is. Short term very uncertain, oil price still low at $35 per barrel. No major oil & gas company is going to approve a capital expenditure programme of a couple of billion dollars whilst there is uncertainty around where the oil price will stabilise. But we are continuing with our plans. We are expanding our engineering capability and we are positioning ourselves in the growth regions that I've mentioned earlier on, in the US, in Scotland and in Canada. We think that will be to our benefit come the time that this market improves.

In January of this year we secured three very important projects. The first is with ConocoPhillips in Australia for the maintenance and services on their project. That is a three-year horizon project. And then two hook-up services contracts on the Ichthys project. The client has asked us not to disclose the value of these projects. For us it is not very significant but it is material in the context of where the market is today. Clough has got a larger share of the commissioning market. The commissioning market will not continue forever. We think by 2018 most of these projects will be commissioned and the commissioning work will taper off sharply. But by then the brownfields opportunities should be well established. It is a market which is emerging at this stage, and it will be in the order of $5 billion per annum. It is important for our Oil & Gas platform to make sure that we secure a sizeable share of that opportunity. And then the other opportunities which are of a greenfields nature, North America, Papua New Guinea and in Africa, we are targeting those, in Africa more specifically in Mozambique and Nigeria, but the timing of that is uncertain.

The Underground Mining platform guys have done a fantastic job in the first six months of this year. Even though the market is so depressed we know that mining companies that operate underground mines need to invest in replacing their underground infrastructure. They need to sink new shafts as the footprint of the mine expands. They need to put tunnels in to get closer to new reef horizons. And that is the bulk of the work that we are currently doing. It is all underground in nature. Even if you take Venetia that is a brownfields project. It is not a brand-new mine. It is an open pit mine. They are just nearing the end of its life. And that mine needs to continue as an underground mine. So the work that we're currently doing is on an existing mine, but we are putting infrastructure in place that this mine can go underground.

And then as I said there are many opportunities out there and we are really very well positioned on these opportunities. I think the Cementation group must be the top underground mining contracting company in the world. The other one which is probably getting close to that would be Redpath, but other than Redpath I think Cementation, the mining platform that we have within Murray & Roberts must be the frontrunner globally. There are other good players but they don't provide the full service offering. There are companies in Australia like Byrnecut etc. but as I said they don't provide the full service offering that we provide.

Power & Water, Medupi and Kusile, we would like to get these projects built as quickly as possible in the interests of the electricity crisis that we have in South Africa. As a consequence of that we are requested by Mitsubishi Hitachi to mobilise more and more resources to accelerate the construction programme. That is why this order book is going up because it is just more and more people that we are throwing at the task to get those projects sorted out. Cobus mentioned in his part of the presentation the George Biomass project. He indicated when he spoke about the project value chain that we are looking at opportunities to participate in project development. Now, this is a typical opportunity. We were successful with the George Biomass IPP project. We will participate as a developer in Murray & Roberts concessions. We will also do the EPC and we will do the operations and maintenance on this power station. A small power station, but significant in the context of what we want to achieve in our strategy as a group.

If I could move on to Infrastructure & Building, I think the Chairperson has expressed certain views about the local market. Cobus has said that 1% is the average margin that players in this market achieve. We are actually pleased to say that we're not losing money in this platform. Very challenging circumstances. We have been successful in the past six months. We have secured a R830 million road contract with SANRAL in KwaZulu Natal. Again in the context of getting into project development we are the co-developer on two residential building projects valued at R1.5 billion combined.

And the third-last bullet on that slide, our investment in the Bombela Concession Company continues to perform well. As you know we've got the Bombela Concession Company which operates the Gautrain system. And our shareholding is 33% in that concession. It continues to do well, so a really good investment. I must say when you look at the Bombela Concession Company and the operator of that system, those guys are maintaining and operating this Gautrain system as well as anybody in the world can. If you look at the levels of service and availability and punctuality it is right up top there with the best in the world. So I think we need to lift a hat to what the guys are doing in the Bombela business. The Gautrain is a fantastic addition to the infrastructure in Pretoria and Johannesburg. And it would be even better if we were successful with Gautrain.

Ladies and gentlemen, that brings me to the end of the presentation. I must apologise that we took a little bit longer than what we intended. We are going to open it up now for questions. Ed, would you manage it for us please?

Ed Jardim
We don't have any on the webcast or the call. If you have questions on the floor please wait for the microphone for the purpose of the webcast and the call. Any questions from the floor?

Henry Laas
Whilst you are thinking about the questions I think I said to the staff when we presented to them this morning last week on Friday we had a structural engineer presenting to the board issues relating to the Grayston incident. This guy is so good in how he explains engineering terms and engineering issues that if you were to sit in his class you would pass his test anytime and you would all be engineers after that. I also said to the people when Cobus explains the numbers he does it so well that everybody who has listened to Cobus over the past couple of

years would all be able to pass the CA exams if you had to write that exam. So I really hope our presentations today were so good that you don't have any questions. If there are questions we will try to answer them. Thank you. What is the arrangement for now? Is it the end of the proceedings? We will be next door. We have got an appointment starting in ten minutes' time. Cobus and I will be around for another five minutes. If you have a question you need to be quick because 13:30 we need to go into a meeting. But thank you very much for your attendance. We really appreciate that you took the time to come and listen to us. Thank you.

END OF TRANSCRIPT