

## FINANCIAL DIRECTOR REPORT



Roger Rees, financial director

In May 2007, Murray & Roberts entered the JSE Top 40 Index. The Group reached a market capitalisation of R21 billion at 30 June 2007, which compares to R8 billion at the previous year end. The increase in market capitalisation due to the underlying share price performance is indicative of the Group's future prospects which are supported by a growing order book, increased operating margin and cash generation.

### INCOME STATEMENT

Operating profit increased by 100% to R1,4 billion during the year under review, at an operating margin of 8,0% compared to 6,5% in the prior year. This is the first time the operating margin has exceeded the strategic margin framework of 5,0% to 7,5%.

Continuing revenue increased by 61% to R17,9 billion. Construction & engineering revenue increased by 70% benefiting from the first time consolidation of Concor Limited, which was acquired from 1 July 2006, the Gautrain contract and a full year of the Dubai Airport project. Mining revenue increased by 35% over the prior year.

Construction materials & services revenue increased by 48%, benefiting from the first time inclusion of Concor Technicrete, while the revenue of steel operations and infrastructure grew by 33% and 27% respectively. Johnson Arabia, an access platform and crane hire operation, doubled its revenue during the period.

Corporate costs increased marginally and there was an increase in IFRS 2 expense relating to share option expense. Year-on-year, the Group's share price increased 152%, consequently increasing the share option expense in the income statement.

The Group's effective tax rate, excluding the impact of exceptional items, was 24,7%, a slight improvement on the prior year, reflecting an increase in nil tax rated income earned in Middle East.

A loss of A\$105,3 million was reported by the Group's 49,1% associate company Clough Limited. A loss of R114 million was reported in the Group's income statement as an associate loss which recognised pre-acquisition project losses in Clough Limited.

Murray & Roberts held a 49,1% shareholding in Clough Limited at 30 June 2007. Certain legacy problem contracts existed in Clough Limited and with impending consolidation into the Group with effect from 1 July 2007, have been addressed with the appropriate loss provisions raised. Provisions amounting to A\$131 million have been raised in Clough Limited in the year ending 30 June 2007 relating to the BassGas and G1 Indian contracts.

Excluding the impact of these legacy contracts, Clough Limited reported an underlying net profit of A\$25 million.

Exceptional items of R147 million include an impairment write-down on the Clough investment of R115 million, specifically relating to the above provision raised by

## FINANCIAL DIRECTOR REPORT CONTINUED

Clough, and a loss of R48 million on disposal of Borbet. Also included is a R13 million net profit from headlease and other properties activities. A separate section dealing with headleases follows in this report.

### BALANCE SHEET

In July 2006, Murray & Roberts paid R333 million for the acquisition of Concor Limited. Additions to fixed assets in the year totalled R1 billion. The Group's shareholdings in Borbet and Foundries were sold during the year for cash of R368 million.

Included in the R1 billion capital expenditure in the year was R252 million in mining which was primarily project related. Concor and construction spent R312 million on upgrading capital equipment to meet future growth. A further R731 million and R45 million was invested in the steel and infrastructure businesses respectively, to upgrade plant and equipment and secure property rights.

Cash generated by operations increased to R2,2 billion (2006: R716 million). Operating cash flow of R1,93 billion (2006: R598 million) was impacted by an increase in taxation paid to R290 million. Working capital showed a decrease of R637 million during the year. Receivable collection in Construction Middle East improved in the year, but remains a challenge and requires constant focus.

Cash on hand at 30 June 2007 was R2,8 billion (2006: R1,8 billion) after significant outflow on the payment for Concor, capital expenditure and convertible notes taken up in Clough Limited. The year end cash on hand included approximately R1 billion held in joint ventures.

Interest bearing long term liabilities increased slightly to R696 million (2006: R672 million). These primarily relate to investment funding into Clough and Cementation Canada and instalment sales agreements in Concor.

With effect from 10 January 2007, the Group acquired an 80% shareholding in Wade Walker Limited, a mechanical, electrical and instrumentation company with R57 million goodwill arising on acquisition. Total goodwill in the Group's balance sheet at 30 June 2007 was R206 million (2006: R147 million) and has not been impaired.

The Group's investment in associate companies at 30 June 2007 was R885 million, a net increase of R8 million over the prior year. During the year, R139 million of convertible loan notes were taken up in Clough Limited and a further 3% of equity was purchased for R35 million. Ahead of the full consolidation of Clough Limited from 1 July 2007, an impairment write-down of R115 million has been made.

A recapitalisation of Clough Limited has been approved. The Group will take up its share of a rights issue and purchase additional equity and convertible notes at an approximate cost of R290 million. Details are included in the report of the directors on page 84.

### HEADLEASES AND OTHER PROPERTY ACTIVITIES

Headleases and other property activities are disclosed under exceptional items. The underlying operating profit is included in headline earnings. During the year the Group settled certain structured finance liabilities relating to its headlease commitments going back to 1997. These amounted to R261 million and are mitigated by a fair value adjustment of R253 million arising from fair valuing the properties arising on a change of accounting policy.

The property headlease portfolio contributed an operating profit of R13 million. The majority of the headleases are accounted for as financial lease liabilities with an obligation of R78 million (2006: R155 million) under finance leases at 30 June 2007. Related headlease property fair valued at year end was stated at R516 million (2006: R259 million restated).

Full details of the Group's headleases are disclosed in notes 1, 2, 17, 18 and 25 of the annual report.

### EARNINGS AND DIVIDENDS

The Group reported diluted headline earnings per share of 325 cents compared to 184 cents in the prior year. The prior year is exclusive of a once-off expense relating to the BBBEE transaction.

The total dividend for the year has been declared at 116 cents with a final dividend of 71 cents per share.

The dividend cover is 2,8 times headline earnings and is at the top end of the Group's strategic range of between 2,8 and 3,2 times cover.



**Roger Rees**

Financial director