Financial Director Report

Roger Rees

Murray & Roberts has come through a difficult year impacted by both internal and external factors. The income statement has been impacted by exchange rate volatility, reduced levels of forward order book and project operating problems. However, the balance sheet remains strong and has been enhanced with the recently announced disposal of the Group's 44% shareholding in Unitrans Limited for a cash consideration of approximately R950 million.

Income Statement

The Group completed the year with a 5% operating margin, which represents our minimum target and compares to 6,3% in 2003.

Earnings before interest and taxation (EBIT) of R421 million, compared to R633 million in the prior year, reflects the impact of reduced revenue, a number of underperforming construction contracts in the Middle East and Africa and a significant reversal in Consani Engineering.

Revenue decreased by R1,69 billion or 17% to R8,4 billion. The average exchange rate used in translating the income statement was 22% lower than in the previous financial year.

In the future context of Globalising Murray & Roberts, the Group has consolidated elements of its segmental reporting to correctly reflect the changed structure of its operational framework.

Construction operations serving global building, infrastructure and industrial markets delivered disappointing operating profits of R83 million compared with a restated R176 million in the previous year. Revenues of R3 billion were down from R3,6 billion and the operating margin of 2,8% was substantially lower than last year's restated 5%.

Operating profit includes a R27 million realised profit on sale of a building concession investment and a R7 million fair value increase in concession investments.

South Africa and the SADC countries continue to offer favourable business conditions and the construction operations achieved good market access to deliver an operating profit of R39 million on revenues of R1,9 billion.

Difficult business conditions, conservative revenue recognition and poor operating performances in Equatorial Guinea, Benin, Nigeria and Egypt resulted in an operating loss of R23 million on revenues of R234 million in the rest of Africa. A period of consolidation in the Middle East delivered a marginal operating profit on revenues of R900 million.

Engineering contracting & services to the industrial and mining markets delivered an operating profit of R81 million compared with R113 million in 2003. Revenues were lower at R651 million and the margin was steady at 12,4% compared with 12,2% for 2003.

Construction materials & services to the building, infrastructure, mining and industrial markets delivered operating profits of R247 million, slightly down from R288 million in 2003. Revenues were down at R3 billion and the margin improved to 9,1%.

The manufacture and supply of automotive components to the domestic and selected global markets generated operating profits of R39 million. This was lower than the previous year following the sale of AWI, which was also reflected in lower revenues of R501 million.

The fabrication and assembly of specialist products for the domestic and global transport markets generated operating profits of R28 million, reflecting the impact of problems at Consani. Revenues were lower at R572 million from R818 million in 2003 and the operating margin was lower at 4,9%.

Industrial services companies Booker Tate, Criterion, Johnson Arabia, Improvair, Elgin and Pefco generated operating profits of R30 million on revenues of R504 million.

Corporate overheads for the year amounted to R100 million which was slightly up on the net R95 million expended in the previous year. This reflected increased corporate activity in preparation for the Group's new globalisation strategy. Both domestic and international leadership has been enhanced to ensure the capacity for growth and risk management that will flow from pursuit of this strategy.

Balance Sheet

The balance sheet remains strong, with cash on hand of R1,1 billion at year-end. Subsequent to year-end R200 million will be utilised to fund the acquisition of Cementation in South Africa and Canada and R400 million will be invested in a further 24,4% shareholding in Clough Limited in Australia.

Cash generated by operations before working capital for the year was R533 million. Operating cash flow amounted to R289 million after an increase in working capital of R88 million and payments of R114 million for discontinued headleases. A number of headleases were bought out during the year and R43 million was paid in interest and tax.

Deferred tax assets of R33 million have been recognised at 30 June 2004 on tax losses in Foundries and Union Carriage and Wagon.

Capital expenditure during the year of R353 million was in line with budget. Amounts of R85 million, R50 million and R21 million were invested in new capacity in Foundries, Cisco Steel Works and RUC respectively. Depreciation of R189 million was consistent with the investment in replacement capital expenditure.

Investments at year-end were valued at R346 million, showing an increase over the prior year of R192 million. The major portion of this increase relates to shares and loans the Group now holds in Borbet South Africa (Pty) Limited (previously AWI South Africa (Pty) Limited) following the disposal of a 50% shareholding in AWI to Borbet GmbH (a company incorporated in Germany) with effect from 1 July 2003. Borbet GmbH has management control and a future option to purchase a further 50% shareholding at a pre-determined price.

Accounting Restatement

The measurement and disclosure of headleases and other discontinued property activities have been restated. All headleases where the Group has a controlling interest in the property at the end of the lease terms are now accounted for as investment properties. An adjustment of R72 million has been debited to opening reserves at 1 July 2002. There is no effect on earnings in the current year.

Concession investments, which constitute a separate business unit and will be traded relatively short term, have been more accurately classified as designated held-for-trade financial investments. Consequently, the 2003 income statement has been restated to reflect the fair value adjustment to the concession investment amounting to R10 million after taxation.

Detailed information is included in note 29 to the annual financial statements.

Earnings and Dividends

The Group reported diluted headline earnings per share of 155 cents, compared to a restated 181 cents in the prior year, after the impact of consolidating the Share Trust for the first time. A full reconciliation of headline earnings per share is disclosed in note 23 to the annual financial statements.

Unitrans, an associate company in which the Group has a 44% shareholding, contributed R119 million to headline earnings, which translates to approximately 36 cents a share.

The Group's offshore cash balances attract low interest, which has been further reduced by a strengthened Rand/Dollar translation rate. During the year the South African operations were in a net borrowed position with a combination of cash, short-term debt and long-term debt. Net interest for the year was in line with budget.

The utilisation of tax losses brought forward and a deferred tax asset on future losses raised in Foundries and Union Carriage and Wagon resulted in an effective tax rate of 6% for the year. With the expiration of the Group's tax losses there will be a significant rise in the effective tax rate in the next financial year.

The Group maintained its dividend cover calculation with a total dividend of 45 cents per share (2003: 52,5 cents) declared for the year. An interim dividend of 15 cents per share (2003: 15 cents) was paid.

Roger Rees
Group Financial Director