Over **125 years Aveng has evolved** in character, capability and reach.

AVENG GROUP

Leaders in infrastructure development

CELEBRATING 125 YEARS • 1889 – 2014

Integrated Report 2014

Contents

Vision

During the strategic realignment of Aveng, a renewed vision statement was developed to guide the Group in achieving its purpose as a sustainable leader in infrastructure development, including support products and mining services.

The Aveng Group aims to own and operate a portfolio of infrastructure, mining and manufacturing-related businesses, each of which will achieve top-quartile performance compared to its peers when measured against return on invested capital, earnings growth, and positive cash flow generation through the business cycle.

Mission

Building a positive and lasting legacy of which our stakeholders, their families and future generations will be proud.

Achieved through:
— Our ongoing development of infrastructure which forms the backbone of many economies in developing countries
— Our dedication to a values-based culture of safety, honesty and accountability across all levels of the Group
— Our commitment to prioritising people, equality and fairness in all relationships we forge with stakeholders
— Our active contribution to social development and integration of sustainability throughout our Group.

Values

Our values of safety, honesty and accountability underpin the way we expect employees to conduct business and interact with our stakeholders

HOME WITHOUT HARM
EVERYONE EVERYDAY

Safety is paramount, never to be compromised in the pursuit of any objective

Forward-looking statements

This report contains forward-looking statements about the company's operations and financial conditions. They are based on Aveng Limited's best estimates and information at the time of writing. They are nonetheless subject to significant uncertainties and contingencies, many of which are beyond the control of the Company. Unanticipated events will occur and actual future events may differ materially from current expectations due to new business opportunities, changes in priorities by the Company or its joint operations as well as other factors. Any of these factors may materially affect the Company's future business activities and its ongoing results.

Celebrating 125 years

Over 125 years Aveng has evolved in character, capability and reach. Its origins lie in modest construction projects but over the years, the Group has developed expertise in steel, engineering, manufacturing, mining, concessions, public infrastructure and water treatment in South Africa, the rest of Africa, Australasia and Asia. The Aveng Group continues to make its mark in mega-projects across the globe.

AVENG GROUP
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As with many companies that have adopted integrated reporting, we at Aveng have seen the integrated reporting journey as a process to transform the way we effectively communicate information that is material to the way we create and sustain value with our stakeholders.

In applying the principles and elements of integrated reporting as outlined in the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework, released in December 2013, Aveng has made some tangible gains in streamlining this year's report while enhancing disclosure in many areas, notably:

— The full annual financial statements are now replaced in this report with a summarised set, with the full set available online in pdf

— Information not contained in this report that is still useful and requested by certain stakeholders is made available online and where applicable in this report, cross-referenced to such information. These online reports, which together with this report form our suite of reports for the 2014 financial year, include the following:
- The full annual financial statements
- The sustainability overview
- The full corporate governance report

— Our geographic spread and organisational commentary is more explicit

— We have included our business model

— We have provided more detail on the process we follow to determine material issues

— We have reported on all material matters, both positive and negative, in a balanced way.

Icon key

This icon indicates where further information on a matter can be found elsewhere in this report.	This icon indicates where further information or supplementary reports can be found online **www.aveng.co.za**

We welcome any feedback on our suite of reports to ensure that we continue to disclose information that is pertinent. Please refer questions or suggestions to info@avenggroup.com.

Online integrated report
For quick access on your mobile to the Aveng website scan this QR code.

About the integrated report

Reporting philosophy and approach

This is Aveng's fourth integrated report, and is a marked step forward in our corporate reporting journey, with some key improvements as outlined on the previous page. Our suite of reports for the 2014 financial year has been identified and explained in the table below for ease of reference.

This report covers the financial period 1 July 2013 to 30 June 2014 and includes the performance of all the Group's operations across all the geographies that the Group operates in. Where external entities substantially influence Aveng's business, their real and potential impacts are also discussed. Key issues have been identified in line with accepted best practice, and the issues regarded as being most material for Aveng and its stakeholders are shown on pages 56 and 57. Aveng defines the materiality of issues for reporting purposes as those issues that substantially affect the Group's ability to create and sustain value over the short, medium and long term. For more information on the materiality determination process undertaken, refer to pages 52 to 57.

Assurance and comparability

Changes to Aveng's operational structure have been discussed on pages 12, 40, 72 and 86. No significant changes have been made in the scope, boundary or measurement methods applied in this report and the rest of the suite of reports. There have been no restatements to comparatives unless otherwise stated in the relevant section.

The summarised financial statements contained in this report are extracted from the full statutory financial statements on our website, prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the South African Companies Act 71 of 2008, as amended, and the Listings Requirements of the JSE Limited, and independently audited by Ernst & Young Inc.

Refer to www.aveng.co.za/financials/annual_reports and www.financialresults.co.za/2014/aveng-integrated-report-2014/sumauditopinion for the respective unqualified audit opinions.

Pursuant to the Group's commitment to transparency and effective communication, Aveng has provided disclosures in this report as well as the sustainability overview on the website in line with best practice and internationally accepted standards, where possible. Certain sustainability information included in this report has been correctly extracted from the online sustainability overview and should be read together with the online review to obtain a fully comprehensive view. The Group has sought independent assurance on selected non-financial metrics. Refer to www.financialresults.co.za/2014/aveng-integrated-report-2014/sustainability for KPMG's limited assurance report included in the sustainability overview report.

Aveng's combined assurance model is well encapsulated in its 'three lines of defence' approach and is continuously being improved, as reported on page 53.

Board responsibility and approval statement

The Board, assisted by its audit committee and other sub-committees, is ultimately responsible for overseeing the integrity of the integrated report. The Board has applied its collective mind to the preparation and presentation of the integrated report and concluded that it is presented in accordance with the International Integrated Reporting Framework V1.0.

The integrated report was approved by the Board and signed on its behalf by:

Angus Band
Chairman

Aveng 2014 suite of reports

	Integrated report	Group annual financial statements	Sustainability overview	Corporate governance	Remuneration
Contents	Concise communication focused on Aveng's material issues, performance and outlook for sustained value creation.	— Audit committee report — Directors' report — Report of the independent auditors — Full consolidated annual financial statements	— Safety — Health and wellness — Environmental — Human resources —Transformation — Corporate social investment — Independent assurance report on selected sustainability information	— Full corporate governance report — King III compliance register	— Remuneration policy (for shareholders' approval) — Remuneration report
Relationship of information between suite of reports	Relevant cross-references to more comprehensive information across the suite of reports.	A summarised set of financial statements has been extracted from the full statutory financial statements and included in this integrated report.	Key elements of the above information have been incorporated into the group performance and operational reviews of this integrated report.	An abridged version of the full corporate governance report has been included in this integrated report.	Remuneration policy and report is contained within this integrated report.
Frameworks and guidelines applied	— The King Code of Governance for South Africa (2009) (King III) — IIRC International Integrated Reporting Framework V1.0	— International Financial Reporting Standards (IFRS) — Companies Act 71 of 2008 (Companies Act) — JSE Listings Requirements	— Safety, health and environment and human resource policies and frameworks — Carbon Disclosure Project (CDP) — B-BBEE Codes of Good Practice — Mining Charter — Construction Sector Charter	— King III — Companies Act — JSE Listings Requirements	— Remuneration policy — King III — Companies Act
Assurance	— The Board, assisted by the audit committee and other sub-committees oversee the integrated reporting process	— External audit opinions — Internal audit — Internal controls — Management and governance oversight	— Limited assurance on selected metrics	— Internal audit — Annual board assessments	— Internal controls — Management and governance oversight

Group organogram

Where we operate

AVENG GRINAKER-LTA | McCONNELL DOWELL CREATIVE CONSTRUCTION | AVENG MINING | AVENG STEEL | AVENG MANUFACTURING | AVENG ENGINEERING

There has been encouraging evidence of growth in the rest of Africa.

To mitigate the impact of declining investment in Australian resources, McConnell Dowell has shifted its focus to sectors that continue to experience growth in Australia, Southeast Asia and the Middle East.

Our business model

External environment

Key drivers in economic, market, technology, society and environmental areas that set the context within which the Aveng Group operates – *further analysis is available on page 10.*

Intensive market competition

Depressed global economic environment

The Aveng Group strives to ensure that the businesses within its portfolio become industry leaders based on market share and profitability. Operational performance is therefore reviewed on an ongoing basis, and where performance does not meet Aveng's targets, strategic and operational interventions are initiated to increase shareholder value.

The world changes constantly. To remain sustainable, businesses look ahead to understand the forces that will shape their future and look within to remain relevant. As we adapt our strategy to this changing world, the core values that underpin our business, guiding best practice and building lasting relationships, remain firm.

Aveng serves the infrastructure development needs of growing and developing societies in a range of geographic markets. This ensures our resilience in economic cycles and enables our operations to diversify in pursuit of growth.

Aveng strives to be responsible in the way it conducts its business, ensuring that its operations are not exposed to undue risk and facilitating economic growth and development in the markets in which it operates. From medical centres that promote healing and wellbeing to school buildings that house the ambitions of tomorrow's achievers, Aveng is building a lasting legacy.

Aveng believes that the key to affecting change through infrastructure development is to partner with governments through their programmes and initiatives. In South Africa, the National Development Plan (NDP) outlines a long-term strategy to secure future growth, and Aveng has highlighted the need to align its objectives with those of the NDP, thereby participating in an ambitious vision to grow the economy, create jobs and develop society.

Inputs

The key resources and relationships required to optimally operate the business – *further analysis on current and desired state is available on pages 11 and 12.*

Financial capital

Cash flow efficiency
Working capital management
Access to affordable borrowings
Credit rating strength
Shareholder value generation and ability to pay dividends
Order book quality and growth
Operating margin

Human capital

Effective decisive leadership
Company culture of responsibility and accountability
Building management expertise
Industry expertise (internal and external)
Highly skilled project managers and an appropriately skilled workforce
Subcontractors
South African transformation needs

Social and relationship capital

Effective stakeholder engagement and entrenching relationships with:

- Business reputation and brand association and funding
- Shareholders, ratings agencies and investor community
- Suppliers
- Customers
- Employees and trade unions
- Government and regulatory bodies

Intellectual capital

Current technology application
Expertise and process knowledge in the services and sectors operated in

Manufactured capital

Construction and mining fleets (owned and leased)
Manufacturing equipment in steel, concrete products, control systems, valves and rail products and services

Beneficiated natural capital

Raw materials
Energy needs for manufacturing

Delays in major infrastructure projects and order placement

Increased claims and extended dispute resolution in tough economic conditions

Uncertain and disruptive South African labour market

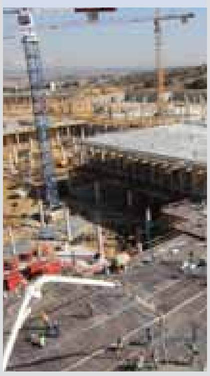
Increased competition regulation and scrutiny

Core business activities and processes

Key sectors that we operate in, how we are structured, what we do in these sectors and where we operate geographically

1 Construction and engineering

Dynamic, innovative multidisciplinary engineering, construction, building, concessions and maintenance solutions


Key market differentiators

- McConnell Dowell **mega-projects capability and expertise, leveraging innovative experience**
- Aveng Grinaker-LTA **specialised project capability and expertise in a multitude of service offerings**

2 Mining

Open cut, shaft sinking and underground mining projects, including design, construction, project management, contract mining and operations management


Key market differentiators

- Aveng Moolmans **is a leader in open cut mining services in Africa**
- Aveng Mining Shafts & Underground **is one of only four deep-level shaft sinking businesses in the world** with the capability to sink vertical and decline/incline shafts in all ground conditions at various diameters and depths

Support processes

Risk and commercial management	Procurement management	Human resource and leadership management	Financial reporting, taxation and treasury

Material issues

Issues that substantially affect Aveng's ability to create and sustain value over the short, medium and long term – *further analysis is available* *on pages 56 and 57.*

Management of working capital and liquidity

Securing quality work

Outputs

Our key products and services and the sectors we serve

3 Manufacturing and processing

Manufacture and supply of a diverse range of steel and concrete products, services and engineering solutions, and rail construction and maintenance

Key market differentiators

- **Automotive steel** capability
- Manufacturing **brands, patents and know-how**
- International **sales networks**
- **Rail** construction, maintenance and engineering capabilities

Complex multidisciplinary projects

in key industry sectors

Core services

- Design and engineering
- Construction
- Engineer, procure, construct, manage (EPCM)
- Plant operations
- Concessions management
- Infrastructure maintenance
- Technical support
- Management of equity interests and operating entity obligations in projects portfolio

Products

- Diverse concrete products
- Diverse steel products
- Building and infrastructure
- Control and automation systems
- Advanced technological equipment and systems

Sectors serve

Infrastructu

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Transpo

Renewable ener

Pow

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Pipelin

Oil and g

Industr

Commerc

Ret

Automoti

Geotechni

Concessio

Safety, health and environmental management

Compliance, legal and governance

Aveng recognises that the power of the Group depends on its coll

The operating groups, identified below, are expande

in the operating group structure representation on pag

The Aveng Group capability matrix is available at www.aveng.co.za/operat

Quality of execution of projects

Transformation in South Africa

Macro-economic environment

Labour instability and costs

Stakeholder relationships and ethical business practices

Outcomes

The optimisation and resilience of our business model and development and execution of an effective strategy is aimed at achieving our key strategic objectives and vision

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tions/capability-matrix

Current state

- Poor financial performance
- Weakened financial position
- Underperforming contracts
- Internal and external reputational damage

Strategic objectives

Recovery and stabilisation phase

- Resolve and settle legacy project claims
- Optimise order book mix and risk profile
- Restore cash flow liquidity
- Realign fixed overhead costs
- Set acceptable return parameters
- Build on strong Australian and Southeast Asian base
- Pursue a selective presence in Africa

Optimisation and growth phase

- Optimise the activities and portfolio of businesses to ensure delivery of strong returns to shareholders
- Sustainable and profitable growth of the Group in its chosen markets and sectors

Group strategy

Recovery and stabilisation focus areas

- Cash management
- Risk management
- Cost management
- Strategy execution
- Skills development
- Culture management
- Communications
- Performance management

Optimisation and growth focus areas

- Optimised business model
- Project delivery models and execution capabilities
- Geographic and sector reviews
- Transformation in South Africa
- Africa strategy
- People management
- Stakeholder relationship management

Renewed Group vision

During the strategic realignment of Aveng, a renewed vision statement was developed to guide the Group in achieving its purpose as a sustainable leader in infrastructure development, including support products and mining services.

The Aveng Group aims to own and operate a portfolio of infrastructure, mining and manufacturing-related businesses, each of which will achieve top-quartile performance compared to its peers when measured against return on invested capital, earnings growth, and positive cash flow generation through the business cycle.

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Remuneration
Shareholder information and administration

Commentary to business model

Our external environment

The Aveng Group operates in a challenging external environment with a number of acute short-term challenges but attractive medium and long-term prospects and opportunities. The following analysis sets out some of the key drivers in the external environment that affect the sectors and geographies in which we operate:

Intensive market competition

In more established markets, the Group experienced a slowdown in growth with excess capacity leading to increased competition.

Africa, which is seen as an area of growth for most industries, is attracting higher levels of global trade and investment and therefore increased competition, not only from African-based competitors.

Barriers to entry in many of the sectors in which Aveng operates are quite low.

Increased competition may lead to pricing and commercial terms that are often unsustainable, impacting negatively on profit margins, liquidity and growth for the business.

The competitive landscape in Australia is also in transition. As a consequence of greater risk transfer than was historically the case, there has been an increase in the power held by customers, and growth in the number of major overseas contractors.

Delays in major infrastructure projects and order placement

While the South African Government has substantial infrastructure development plans, implementation and funding are significant impediments. Energy and transport make up a large proportion of the proposed government spend through state-owned companies, Eskom and Transnet. It is anticipated that an uplift in infrastructure spend will remain slow until 2015, at the earliest.

Eskom recently announced approval of a new power station, Coal 3, to commence after completion of Kusile and Medupi. The completion delays at both power stations, however, raise questions on timing.

While an investment in new nuclear generation capacity appears likely, the timing remains uncertain.

The Australian market remains difficult with construction in the mining and oil and gas sectors both off their peak, only partially offset by transport infrastructure. Along with water infrastructure, these sectors have driven growth over the past decade.

Increased claims and extended dispute resolution in tough economic conditions

Legacy contract performances and delays in the resolution of claims have led to negative cash flow and impacted profitability, as well as absorbing valuable management time. The current economic conditions experienced globally contribute to the delays in resolving claims as clients also have reduced liquidity.

Depressed global economic environment

South Africa has a relatively subdued outlook in most sectors, with notable exceptions in renewable energy and rail infrastructure. Growth in South Africa is likely to remain subdued in the medium term due to low business confidence and perceived policy uncertainty, electricity constraints, a weaker global mining environment, and slow growth in traditional export markets coupled with inertia in government investment in infrastructure, and an unstable labour environment.

Australian growth prospects remain positive with low budget deficits and a friendly business climate.

The strongest growth is expected to come from sub-Saharan Africa and Southeast Asia, particularly in the construction and transportation industries.

Uncertain and disruptive South African labour market

Labour unrest in South Africa has been prevalent in the construction, mining, steel and motor industry sectors, affecting almost all of the Aveng Group's businesses directly or indirectly.

The labour environment is increasingly pressured and construction site lock-outs can occur even when our own labour force is not on strike. Competition between unions has led to a militant approach, extended strikes and often significant disruption to business.

Increased competition regulation and scrutiny

The Competition Commission's Fast-Track Settlement Process and attention in the media has negatively affected the industry's reputation. The threat of ongoing civil claims for damages, blacklistings and prosecutions remains an issue, and the need to restore trust with all affected and future stakeholders remains a priority.

Our risk management and material issues determination process seeks to assimilate the current status and trends of our external environment to ensure that appropriate strategic responses and controls are put in place by the Group.

For additional information on material issues, refer to pages 52 to 57.

Our capital capabilities

Our capital analysis provides insight into the resource capabilities and challenges that the Group faces with the objective of ensuring that Aveng has the required resources to execute against its strategy and that the business model is adapted accordingly. The analysis below sets out a synopsis of the current status of the capabilities of the Group and the aspirations to build capabilities to the desired and required levels to effectively execute the Group's strategy.

Financial capital

The measure of the Group's future success will be its ability to operate profitably and generate positive free cash flows for growth, servicing of borrowings and regular dividend payments to shareholders.

Increased contract claims and operating losses have strained group cash flows, resulting in increased gross borrowings and reduced net cash on hand at year end.

The current recovery and stabilisation strategy includes an intensive focus on cash management initiatives in the short, medium and long term to address the strength of the financial position and improve the cash generative ability of the Group.

The issue of a convertible bond, disposal of non-core assets and alternative funding structures will contribute to reducing overall borrowings levels and improved maturity and interest rate profiles on borrowings.

For additional commentary by the group financial director, refer to pages 30 and 31.

Human capital

The ability of the Group to effectively execute against its strategic priorities will depend on the quality and decisiveness of leadership and the skills and experience of its people.

An intensive ongoing process is in place to assess the leadership and skills requirements at each operating group and to develop action plans to identify leadership and skills gaps, including addressing reward systems and transformation needs of the Group.

There is also a drive to ensure that the right people are deployed in the right positions with roles that are compatible with their capabilities.

There is a clear need for transformation of businesses notwithstanding the challenge posed by the lack of availability of highly experienced and skilled staff required in the industry. Aveng also recognises the need to be sensitive to socio-economic development policies, while harnessing skills over a vast geographic spread of projects.

Instilling a revitalised Aveng culture across the Group is also key to achieving the strategy and vision of the Group. This includes analysing the latest culture baseline, setting goals for the ideal culture and driving programmes to achieve these.

This initiative includes driving a culture of performance and consequence management, with appropriate levels of accountability and management empowered to make timely and decisive decisions.

Social and relationship capital

Aveng recognises that a proactive and robust engagement process with stakeholders is critical in understanding their views and concerns. The ability to effectively identify material issues pertaining to stakeholders, including risks and opportunities, and effectively respond to these issues will enable us to create and maintain value.

Our stakeholder engagement and communication programmes are directed at re-establishing and building relationships and reputation with our key stakeholders.

More insight into our stakeholder engagement and relationship programmes has been provided on pages 54 and 55.

Intellectual capital

The corporate memory of the Aveng Group's construction, engineering and manufacturing processes and know-how are at the cornerstone of its competitive advantage in the industry. With 125 years of continued development and innovation, the Group has established capabilities and expertise in the sectors in which it operates.

The Group is particularly well placed with the mega-project capabilities of McConnell Dowell, specialised and broad-based project capability and expertise of Aveng Grinaker-LTA, deep-level shaft sinking and open cut mining capabilities of Aveng Mining and the automotive, steel and other patents and brands of Aveng Steel and Aveng Manufacturing.

Commentary to business model continued

The focus of the Group will be on the profitable commercialisation of the capabilities and expertise as well as innovative abilities contained within its business.

Manufactured capital

The nature of the Group's construction and mining operations is such that the equipment requirements are not particularly specialised and thus barriers to entry in this regard are not formidable. However, the equipment requirements of the mining and certain construction operations are capital intensive and require significant cash investments. Alternative models of financing such equipment are being pursued.

Within the South African and Australian construction businesses most manufactured capital is project specific and is therefore factored into project capex decisions and usually disposed of thereafter unless it can be used on further projects. For operations that require manufactured capital on an ongoing basis, such as Aveng Steel, these facilities are modern, well maintained and all still have considerable useful lives. Some facilities are quite specialised, designed to produce complex pipe-work for industrial plants as well as components for the new South African coal-fired power station build.

The Aveng Manufacturing operating group has a mixed variety of plant, with varying age, and a few examples of modern, state-of-the-art technology, such as paving and roof tile facilities. Similarly, mining assets operate within accepted life expectancy and maintenance levels. Where costs to run and maintain are not sustainable, these areas are reviewed for focused capital investment.

Natural capital

Access to construction and engineering materials is generally readily available. However, these input costs are volatile and change in response to underlying commodity price fluctuations.

Access to raw materials for the manufacturing and processing businesses, particularly automotive steel, is an imperative and similarly subject to commodity price fluctuations.

Aveng looks to strategically source many of the materials used in its operations and supply of services from suppliers that are aligned to the Group's transformation objectives.

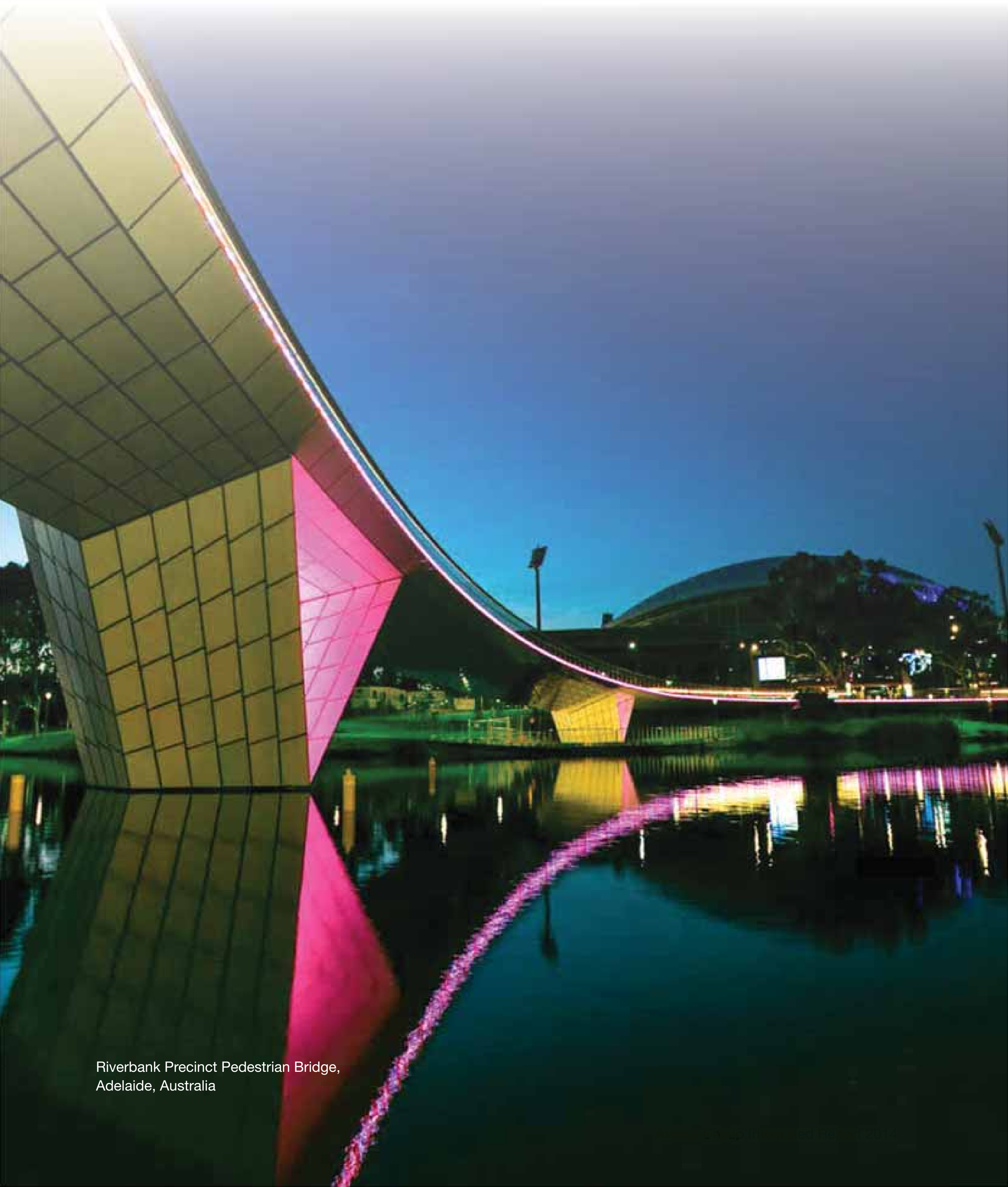
Access to, and the cost of, electricity and water is essential for the manufacturing and mining businesses as well as certain parts of the engineering and construction businesses. Security of supply, business interruption and efficiency programmes are in place throughout the Group to ensure critical areas are adequately managed.

Our operating structure

Our operating structure has undergone rigorous streamlining and restructuring in recent years to the current focused yet integrated group structure. Businesses are focused on their key service and product offerings, sectors and geographies, while seeking to ensure that a synergistic and integrated approach is taken to market opportunities.

All group operations have undergone varying degrees of restructuring during the past two years to address areas of weakness, leverage synergies that exist across the Group, and optimise their financial performances and future growth prospects. The results of these interventions are evident in the performances of a number of operations that underperformed in 2013, notably the Aveng Steeledale and Aveng Steel Fabrication businesses of Aveng Steel and Rand Roads in Aveng Grinaker-LTA. Other operations, including Aveng Grinaker-LTA and Duraset in Aveng Manufacturing, are responding well to measures to stabilise and restore their strength.

We have also enhanced strategic guidance reinforcing our centre-led business operating structure, with a smaller optimised corporate office structure focused on strategic management of investments in underlying businesses, extracting synergies and providing selected group shared services and support.



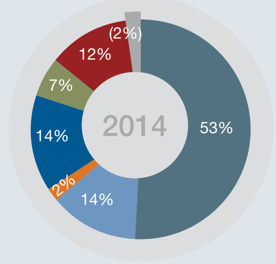
Riverbank Precinct Pedestrian Bridge,
Adelaide, Australia

Financial performance

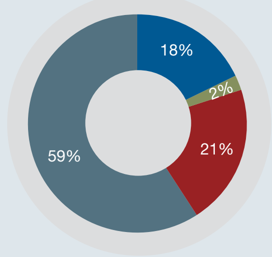
During the year to 30 June 2014:

Revenue	**R53 billion** Increase of 2% from R51,7 billion at June 2013
Net operating earnings	**R784 million** Increase of 20% from R656 million at June 2013
Goodwill and related intangible assets	**Impaired by R831 million**
Earnings for the period	**R376 million loss** (2013: R459 million profit)
Headline earnings	**R421 million** Decrease of 10% from R466 million at June 2013
Net finance expenses	**R183 million** Increased from R30 million at June 2013
Adjusted earnings per share (excluding impairments)	**120.3 cents** Decrease of 4% from June 2013
Loss per share	**(101.9 cents)** Decrease from 124.6 cents earnings per share at June 2013
Headline earnings per share	**112.5 cents** Decrease of 10% from June 2013
Dividends per share	No dividend was declared for the full year and the prior year
Net asset value per share	**R33,44** Decrease of 2% from June 2013
Two-year order book	**R40,9 billion** Increase of 9% from R37,4 billion at June 2013
Subsequent to 30 June 2014, the Group issued	**R2 billion** Unsecured senior convertible bonds with a five-year tenure

Revenue by operating group

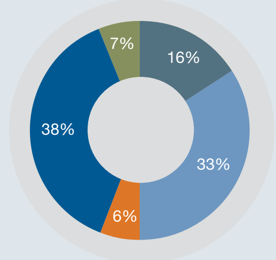


Two-year order book by operating group



- McConnell Dowell (ZAR)
- Aveng Grinaker-LTA
- Aveng Engineering
- Aveng Mining
- Aveng Manufacturing
- Aveng Steel
- Other

Two-year order book by sector



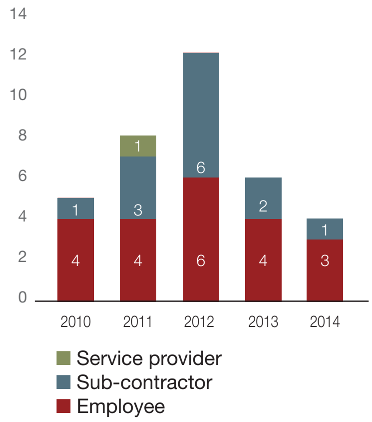
- Power
- Mining
- Water
- General infrastructure
- Oil and gas

Non-financial performance

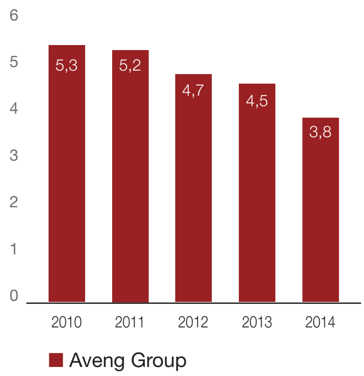
During the year to 30 June 2014:

Fatalities	**4** (2013: 6 fatalities)
All injury frequency rate (AIFR)	**3,8** (2013: 4,5)
Resilience in near-miss reporting	**28 553 reports** of which approximately 88% were addressed
OHSAS 18001 certified operations by revenue	**95%**
Key safety achievements	• Kopermyn and Pembani coal washing plants completed **6 years without a lost-time injury (LTI)** • Sapref project – **6,5 million LTI-free hours** • Sadiola gold mine in Mali – **3,8 million LTI-free hours** • Aveng Steel Fabrication – **2,3 million LTI-free hours** • Skorpion Zinc in Namibia – **2,2 million LTI-free hours** • McConnell Dowell: Jurong Co jetty works project – **1 million LTI-free hours**
B-BBEE rating	**Level 3** (2013: Level 2) Decline mainly due to lower employment equity and skills development scores
BEE arrangement matured on 30 June 2014	Qakazana shareholders concluded the share exchange as per original agreement

Five-year fatality trend



Five-year AIFR trend



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Board of directors

Angus Band (62)

Independent Non-Executive Chairman

BA, BAcc, CA(SA)

Chairman of the Board
Member of investment committee, risk committee; remuneration and nomination committee; social, ethics and transformation committee and tender risk committee

Angus was appointed to the Board in July 2006.

Eric Diack (57)

Independent Non-Executive Director

BAcc CA(SA), AMP Harvard and UCT

Chairman of investment committee
Member of audit committee, risk committee and tender risk committee

Eric was appointed to the Board on 1 December 2013.

Peter Erasmus (61)

Independent Non-Executive Director

Pr Eng, BSc (Civil) (Hons), BCom (cum laude), MSAICE

Chairman of risk committee
Member of tender risk committee

Peter was appointed to the Board in March 2011.

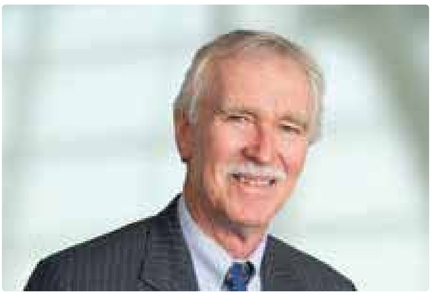
May Hermanus (54)

Independent Non-Executive Director

BSc (Geology), MSc (Physical Metallurgy), Takemi Fellow, Harvard University

Chairman of safety, health and environmental committee

May was appointed to the Board in September 2009.



Michael Kilbride (62)

Independent Non-Executive Director

BSc (Hons) Mining Engineering, (RSM, London University), MDP (Unisa), SEP (London Business School)

Member of risk committee; safety, health and environmental committee and tender risk committee

Michael was appointed to the Board on 4 July 2012.

Juba Mashaba (48)

Group Executive Director

BA, LLB (Swaziland), Human Resources Executive Programme (University of Michigan Business School)

Member of executive committee

Juba was appointed to the Board in October 2007.

Adrian Macartney (46)
Group Financial Director
BCom, BCompt (Hons), CA(SA)
Member of executive committee
Adrian was appointed to the Board on 8 September 2014.

Thoko Mokgosi-Mwantembe (53)
Independent Non-Executive Director
Dip Education (Swaziland), BSc (Swaziland), MSc (UK), SEP (Harvard), MCRP (IMD)
Chairman of remuneration and nomination committee
Member of social, ethics and transformation committee
Thoko was appointed to the Board in December 2010.

Kholeka Mzondeki (46)
Independent Non-Executive Director
BCom ACCA (UK)
Member of audit committee
Kholeka was appointed to the Board on 1 January 2014.

David Robinson (60)
Managing Director of McConnell Dowell Corporation Limited
BE (Civil), FIE Aust, CP Eng, FAICD
Member of executive committee
David was appointed to the Board in January 2005.

Mahomed Seedat (58)
Independent Non-Executive Director
BEng (Electrical), PMD, GCC
Chairman of social ethics and transformation committee
Member of safety, health and environmental committee
Mahomed was appointed to the Board on 4 July 2012.

Kobus Verster (48)
Chief Executive Officer
BCom (Hons), MBL, EMP
Member of executive committee and tender risk committee
Kobus was appointed to the Board as financial director on 27 September 2010 and appointed as CEO on 11 February 2014.

Peter Ward (61)
Independent Non-Executive Director
BCom, CA(SA)
Chairman of audit committee
Member of risk committee and tender risk committee
Peter was appointed to the Board in July 2007.

Details correct as at 22 September 2014

For directors' full CVs please refer to www.aveng.co.za

Chairman's statement

I am confident that Aveng has the necessary capacity and capability to fulfil its vision of being a leader in selected markets in South Africa, the rest of Africa, Australasia and Asia.

Angus Band Chairman

2014 has been a year of recovery and stabilisation with the objective of dealing with underperformance in a number of operations as well as bedding down new management in some key positions.

While the impact of management's interventions to reposition our South African operations is evident in the improved performance of the majority of these operations, the Group's results were eroded by significant losses incurred by McConnell Dowell on the Gold Coast Rapid Transit rail contract in Australia, which offset a solid underlying performance by the rest of this business. This contract, as well as the previously reported Queensland Curtis Liquefied Natural Gas Pipeline contract, are both complete but have had a very material impact on both earnings and cash flow over the past two years. Management is pursuing claims with vigour but it is expected that these will take some time to resolve.

The overall effect of these developments was a 2% increase in revenue to R53,0 billion (2013: R51,7 billion), driven by the completion of a number of major contracts in Australia. Net operating earnings increased by 20% to R784 million with the benefit of a better performance in South Africa partially offset by the loss on the Gold Coast Rapid Transit contract. The progress made in Aveng Grinaker-LTA is reflected in a reduced loss and the expectation is that the new financial year will see a material continuation in its recovery. The problematic Mokolo Crocodile Pipeline contract incurred further losses during the year as a result of the heavy rainfall which flooded the area, preventing access to the site since March 2014.

Headline earnings declined by 10% to R421 million due to a substantially higher finance charge incurred as a result of the funding of higher working capital in the form of uncertified revenue, particularly in Australia. In light of recent underperformance, a decision was taken to impair the goodwill and related intangible assets of Aveng Grinaker-LTA and the water operation of Aveng Engineering, which resulted in a loss of R376 million for the period. Headline earnings per share, excluding the impairment, was 112.5 cents, 10% lower than the previous year's 124.6 cents.

Dividend

The Board decided not to pay a dividend as a result of the deterioration in the Group's cash resources which is largely due to the commercial issues on two Australian projects. The Group anticipates reverting to the published dividend policy in the medium term.

Overview

Our domestic markets remained subdued as a result of low levels of investment and activity in the mining, steel and manufacturing sectors and a disruptive labour environment. The South African Government's infrastructure programme remains slow to come to project tender stage and projects are generally taking longer to close. The disruptive impact of the prolonged strikes in various sectors that we operate in has been very costly and has resulted in project delays. It is a matter of extreme concern that these prolonged strikes now appear to be an annual event and an alternative method of engagement has to be developed to prevent the adverse impact of this strike action on the economy in general and our sectors in particular.

The steel sector remains depressed with both volumes and prices constrained by low demand from mining, construction and the automotive sectors. Domestic supply problems have led to a greater reliance on imports. The impact of the automotive strike last year and the recent NUMSA strike have placed further stress on the sector which has seen a number of liquidations within the smaller distribution and processing sector.

Our mining operations have been adversely affected by the rationalisation initiatives of some customers in response to lower commodity prices. This has resulted in contracts either not being renewed or the proposed terms of renewal being uncommercial. Although new work has now been secured there was a gap between contracts terminating and new ones starting which saw revenue in our mining operations decline.

The project pipeline within the domestic operations appears to be reasonable but the time taken to award tenders is prolonged and contract terms are increasingly onerous. Africa remains a real opportunity and management is focusing on prospects in Mozambique and other areas of material size.

McConnell Dowell benefited from a shift in focus to transport infrastructure and other growth sectors in Australia and to other geographic markets in the region as investment slowed in resource infrastructure in Australia. Notwithstanding the completion of a number of major contracts in Australia, the order book remains strong and the opportunity pipeline attractive.

Aveng has experienced substantial losses on a number of the larger projects in recent years but these are, by number, in the minority as we have generated acceptable returns on many other large projects. The impact of these problematic projects has resulted in material losses that have placed undue pressure on the Group's earnings. In addition, the funding of both these losses and the claims associated with them has strained the Group's financial position. This has necessitated a review of our risk management, project execution and claims management systems and capacity. Key leadership changes have also been implemented that will strengthen our operational and commercial leadership, particularly in Aveng Grinaker-LTA and McConnell Dowell. In addition, we have implemented measures to reduce our borrowings and improve our liquidity to ensure a stable foundation for growth.

These measures are discussed in more detail in the chief executive officer's report on page 24.

The setbacks referred to above should not invalidate the strong performances in other major infrastructure contracts undertaken by McConnell Dowell and Aveng Grinaker-LTA or the resilience of our South African mining and manufacturing businesses which have grown and remained profitable in spite of extremely difficult market conditions.

A challenging market environment

The construction industry is experiencing significant shifts in the way it engages markets and conducts business. Globally, there is increasing demand for investment in infrastructure that serves the needs of growing populations and facilitates economic growth. This has increased the magnitude and complexity of the projects our businesses undertake, a trend that is exacerbated during periods of economic recession as project owners reduce their risk exposure by shifting higher levels of risk to the contractor. This changing landscape heightens both opportunity and risk for our Group and compels us, as we plan our future direction, to ensure that we continue to participate in the opportunities without exposing our businesses to undue risk.

The volatile labour environment referred to earlier in my report presents a considerable risk to our Group and we have adopted a number of interventions to manage labour relations effectively and strengthen our employee relations. We also support higher levels of engagement between government, business and labour to facilitate a review of the current labour relations framework.

Safety

Aveng maintained its trend of an overall reduction in safety incidents but failed to meet the key safety objective of zero fatalities during the period under review. Four (2013: six) fatalities occurred at our operations during the year; two of them involved vehicle accidents and one of the deceased was an employee of a service provider. We deeply regret these deaths and offer our condolences to the families and colleagues of the deceased. Each incident was thoroughly investigated and the lessons learnt were shared across the Group.

Lifting operations, transport and subcontractor safety remain challenges across our operations and we have adopted a range of safety leadership approaches to embed a culture of safety, including visible safety leadership as a key performance indicator for managing directors. The Group's all injury frequency rate, which includes fatalities, lost-time injuries, restricted work cases, medical treatment cases and first-aid cases, decreased to 3,8 (2013: 4,5) and the lost-time injury frequency rate to 0,22 (2013: 0,24).

Chairman's statement continued

Strategic positioning

The Board reviews the Group's strategy annually to ensure that Aveng optimises and enhances the performance of its existing business portfolio to generate greater shareholder value, and expands in selected geographies (rest of Africa, Southeast Asia) and markets (power, concessions, rail) that offer the greatest potential for sustainable long-term growth.

In response to the current operating environment and isolated areas of underperformance which affected the Group's cash flow and liquidity, the Board implemented a recovery and stabilisation plan during the year. This involves a number of immediate measures to resolve and settle major outstanding project claims, restore cash flow and liquidity and realign fixed overhead cost structures to ensure they are sustainable at envisaged levels of activity. The recovery and stabilisation plan is at an advanced stage of implementation and forms a stable foundation for the optimisation and growth of our businesses.

Aveng will maintain a more focused centre-led business model but with clearer accountability and role clarity between the corporate office which is responsible for policy development and process, and the operations which execute their strategies in alignment with group objectives. This will reduce duplication of effort and cost and strengthen accountability for performance.

Ethical business practices

The investigation into the construction industry by the Competition Commission, and the consequent penalties imposed on the industry, have achieved the objective of deterring future anti-competitive behaviour and thereby ensuring a more competitive industry. Aveng has taken decisive steps through its training and compliance programme to ensure that such transgressions of governance do not recur.

Over the next three years, government has committed to investing R827 billion in the construction of ports, roads, railway systems, power infrastructure, hospitals, schools and dams, all of which will spur economic growth and jobs. Over the longer term, the 18 strategic integrated projects of the Presidential Infrastructure Coordination Commission bring the total value of projects being considered to R4 trillion. The success of these plans will depend on effective and ethical implementation and cooperation between the construction industry and government and it is therefore imperative that trust is rebuilt between these groups so that the capacity that resides in the industry can be utilised to assist in the delivery of these ambitious plans.

Despite what some will say, the fines imposed in 2013 on 15 large construction companies – which amounted to more than R1,5 billion – were not simply a slap on the wrist. The fines were substantial relative to the profits earned by these companies from projects in South Africa over the period of the investigation. Unlike instances of collusion in other industries, there have been calls for further punitive measures against our industry. Some are even calling for guilty companies to be banned from doing government business in future. Then there is the spectre of civil litigation and criminal prosecution.

The imposition of further onerous sanctions will add additional risk into an inherently high risk industry and be detrimental to the National Development Plan, and even be in conflict with the principles of the Competition Act itself. While wrongdoers need to be held to account, South Africa is also dependent on our industry's vital role in the economy as a lead driver of job creation, transformation and economic development, and therefore a balanced, mature approach must be taken in dealing with this matter.

We now need open and pragmatic discussion with all stakeholders so that public sector infrastructure spending can be leveraged to also benefit emerging contractors and so that jobs will be created, skills developed and a vibrant sustainable economy established. We also need to think creatively about how to overcome the dire skills and capacity constraints – and support capacity building in public sector organisations. Rebuilding trust will require leadership from all sides.

Transformation

Our vision is to make Aveng a company without divisions and boundaries that may make people feel structurally excluded. We achieved a level 3 broad-based black economic empowerment (B-BBEE) contributor score in the 2014 verification cycle and are committed to reverting to the prior year's level 2 status in the next cycle. However, we recognise that it will be difficult to maintain this score beyond the 2015 cycle as the revised B-BBEE codes take effect. A multidisciplinary project team led by senior executives was tasked with assessing the Group's current level of compliance and a programme has been developed to bridge the gap and speed up the pace of our transformation.

The historic BEE arrangement which has afforded Aveng a strong BEE ownership rating successfully matured on 30 June 2014 with R942 million value created. We are considering a new empowerment model which is intended to create sustainable value for Aveng, while addressing the Group's transformation imperative.

Our employment equity, and particularly the representation of various race groups in senior, middle and junior management, is low when measured against the Construction Charter's five to seven-year stretched targets as well as the targets of the revised codes. More attention is being dedicated to bridging these gaps, including a strong focus on training and skills development.

Additional information on the Group's transformation plans and practices is available in the online transformation report at www.financialresults.co.za/2014/aveng-integrated-report-2014/sustainability.

Board of directors

Following the resignation of Roger Jardine as CEO of the Group on 31 August 2013, Kobus Verster, the Group Financial Director, was appointed as acting CEO. On 11 February 2014, Kobus was confirmed as CEO, following an extensive search initiative, and as acting Group Financial Director. Kobus joined Aveng in 2010 and was appointed an Executive Director in the same year. He gained extensive experience in the steel industry before joining Aveng and has served on the boards of Aveng (Africa), McConnell Dowell and Aveng Trident Steel over the past four years.

Adrian Macartney was appointed as Group Financial Director and Chief Financial Officer with effect from 8 September 2014, enabling Kobus Verster to relinquish his acting position. Adrian Macartney is a CA(SA) and was audit partner at EY prior to joining Aveng. He has over 20 years of experience in assurance, transactions and advisory services.

The Board's succession planning process resulted in the appointments of Eric Diack and Kholeka Mzondeki as Non-Executive Directors of the Board with effect from 1 December 2013 and 1 January 2014, respectively. Eric Diack is an experienced senior executive and has gained strong finance, general management and investment experience across many industries. Kholeka Mzondeki is an experienced finance director who has worked in a range of industries. Both have joined the audit committee of the Board. Eric Diack is also chairman of the investment committee and a member of the risk committee.

We welcome Adrian Macartney, Eric Diack and Kholeka Mzondeki and look forward to the contributions they will make to the Board.

Long-serving Non-Executive Directors, Myles Ruck and Nkululeko Sowazi resigned, with effect from 6 December 2013 due to onerous travel and other business commitments. Rick Hogben, who has served the Board for almost eight years, has unfortunately decided to withdraw from all of his business commitments as a result of poor health and retired from the Board on 20 August 2014. We thank Messrs Ruck, Sowazi and Hogben for their valuable contributions to Aveng and wish them well in their future endeavours.

Acknowledgement

Finally, I would like to thank my colleagues on the Board for their wise counsel in guiding Aveng through another challenging year. I am particularly grateful to Kobus Verster for taking on two demanding roles and to his leadership team and all of the people of Aveng for their part in repositioning our business operations in difficult operating conditions. Juba Mashaba has also taken on additional responsibilities and continued to play a critically important role in managing the Group's stakeholder relations. Our clients, suppliers and business partners enable us to continue delivering the projects that sustain the markets we serve and I thank them for their ongoing support.

I am confident that Aveng has the necessary capacity and capability to fulfil its vision of being a leader in selected markets in South Africa, the rest of Africa, Australasia and Asia.

Angus Band
Chairman

Chief executive officer's review

Aveng is at an advanced stage of addressing areas of underperformance and the Group is proceeding with a clear plan to stabilise and strengthen its financial position. As we attend to the complex claims processes currently underway, we will maintain our strong focus on achieving the financial performance targets we have set for the Group.

Kobus Verster Chief Executive Officer

This is my first report as Chief Executive Officer of the Aveng Group. I have gained a deep understanding of the Group's operations and its markets during the four years I have worked as Group Financial Director, combining the role more recently with that of acting CEO. This has given me the advantage of being able to embark without delay on my new role.

Overview

Aveng is a fundamentally strong business with a portfolio of infrastructure, mining and manufacturing-related assets that are well diversified across a range of sectors and geographic locations that offer strong opportunities for growth. However, together with other businesses in its sectors, Aveng operates in market environments in South Africa, the rest of Africa, Australasia and Asia that are currently weighed down by a range of growth-constraining factors. These external pressures have exposed areas of weakness in some of our businesses that have contributed to underperformance relative to our industry peers in recent years. There has been a renewed drive by a reenergised leadership team to address these weaknesses during the 2014 financial year. The actions we have implemented to achieve this form the bulk of my report.

Operational performance

The Group's South African markets remain weak as a result of limited investment in infrastructure projects, the impact of weaker commodity prices and labour disruptions on the mining sector, and generally subdued manufacturing and steel sectors. These factors were compounded by unusually heavy rainfall across the country in March 2014 which delayed a number of our projects.

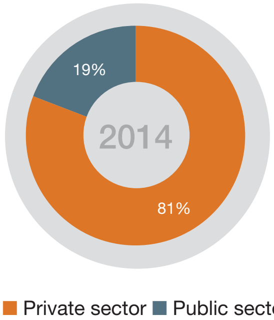
In spite of these challenges, our South African operations have been robust and some have performed well. Interventions to stabilise businesses that underperformed in 2013 resulted in a 37% reduction in the losses of Aveng Grinaker-LTA and a turnaround in the performances of Rand Roads, Aveng Steeledale and Aveng Steel Fabrication.

Aveng Mining has remained resilient in a mining market that has been in turmoil since 2008. Moolmans continued to deliver strong financial results as solid performances in its South African projects and new awards in the domestic market limited the impact of the cancellation of two projects in Africa and completion of a third. Shafts & Underground stabilised its performance at many of its South African projects and the Chuquicamata mine in Chile progressed to the main shaft sinking phase.

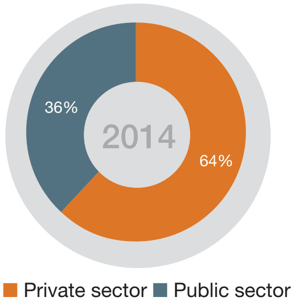
Apart from those operations with exposure to the platinum industry and its related industrial action, Aveng Manufacturing also performed well. In particular, Infraset and Lennings Rail Services benefited from the award of major construction, maintenance and materials supply contracts for railway projects in South Africa and sub-Saharan Africa, as well as ongoing demand for construction products in South Africa. Aveng Trident Steel remained under pressure in an environment of sustained competition and lower demand which prevented it from achieving the recovery we had anticipated, although both Aveng Steeledale and Aveng Steel Fabrication recovered during the year.

The impact of external market conditions on Aveng Grinaker-LTA was compounded by internal operational and commercial challenges experienced by some of its current projects and legacy contracts. The commencement of work on major rail projects in Mozambique and South Africa and an improved performance in the second half of the financial year contributed to an increase in revenue and a reduction in the net operating loss. This performance was in line with our expectations, and as the stabilisation and recovery intervention gains traction under new leadership, Aveng Grinaker-LTA remains on track to return to profitability.

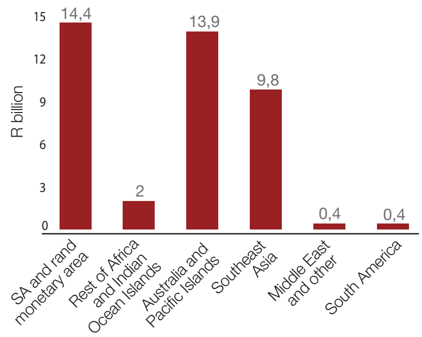
Revenue by public / private sector



Two-year order book by public / private sector



Two-year order book by region



The Group's Australian operation, McConnell Dowell, operated in challenging market conditions, with declining opportunities in its core sectors and increasingly demanding commercial conditions resulting in higher levels of risk. Major contracts contributed to ongoing revenue growth but earnings were materially impacted by losses incurred on the Gold Coast Rapid Transit (GCRT) contract in Australia which was largely completed in July 2014. Overseas operations in New Zealand and Southeast Asia performed well, achieving strong profit growth on increased revenue with excellent project execution in most areas.

Technical handover of the GCRT contract to the client was achieved in July 2014. While this limits the risk of further material cash outflows, other than those associated with remedial works underway, the cost to completion significantly exceeded budget due to complex design and scope amendments, along with the impact of delays and acceleration requirements. This resulted in the recognition of a substantial loss in the 2014 financial year and a significant increase in uncertified revenue. With completion largely achieved, the process of finalising and resolving claims to recover losses will be intensified. The commercial negotiations are likely to be protracted due to the technical and legal complexities associated with the claims. The final outcome remains an uncertain and material risk.

The Queensland Curtis Liquefied Natural Gas project has been completed but the claims to recover losses incurred on the contract in the 2013 financial year remain unresolved. We continue to discuss a commercial settlement with the client and McConnell Dowell is also pursuing its contractual entitlements through a formal arbitration process. This process is substantially advanced with a second arbitration case submitted in July 2014. Aveng's interests in pursuing these claims are represented by a combination of Tier 1 legal firms and pre-eminent legal counsel. We are confident that the calibre of the respective teams affords Aveng the best possible opportunity to recover our commercial entitlement. Sufficient liquidity has been provided to enable McConnell Dowell to repay advance payments of AUD142,5 million (R1 429 million) to the client during the first half of the 2015 financial year.

Additional detail is available in the operational review on pages 64 to 91.

Financial performance

Revenue increased marginally to R53 billion, reflecting a year of consolidation. An 11% increase in gross earnings to R3,8 billion was largely attributable to the strong performances of Aveng Mining, Aveng Manufacturing and a decline in the losses recognised by Aveng Grinaker-LTA. However, this performance was eroded largely by the material losses associated with the GCRT contract and the impact of labour disruptions in South Africa's construction, platinum mining and automotive markets. The direct impact of labour disruptions on net operating earnings amounted to R179 million (2013: R350 million). Where there is a provision in our contractual arrangements to recover these costs, we have taken the necessary steps to do so. While much of this impact is experienced indirectly by contractors such as Aveng on shared project sites, we recognise that it is critically important to be proactive in managing those impacts that are within our control.

Chief executive officer's review continued

Despite these impacts, the Group reported a 20% increase in net operating earnings to R784 million.

A decision was taken to impair the goodwill and related intangible assets of Aveng Grinaker-LTA and Aveng Water following prolonged and ongoing weakness in the infrastructure investment market and the lower-than-anticipated commercial uptake of the Group's water treatment technology.

Key focus areas

Stabilise financial position

Combined with the operating performance, the increase in unsettled claims, particularly those associated with the GCRT and QCLNG contracts, caused a substantial deterioration in the Group's net cash position over the past two years. These claims contributed to an increase in uncertified revenue to R6,8 billion at 30 June 2014 (2013: R4,2 billion), and a consequential weakening in the net cash position. The Group's gross borrowings increased to R2,9 billion at the end of the financial year (2013: R1,5 billion).

While the Group remains confident that the claims recognised as uncertified revenue will be positively resolved, negotiations of this nature tend to be protracted and may delay their finalisation. Therefore, we have implemented the following immediate interventions to reduce borrowings and restore short-term liquidity while the claims are being processed:

- Successfully placed 7,25% senior unsecured convertible bonds for a principal amount of R2 billion with South African and international institutional investors
- Embarked on a programme to dispose of non-core assets in order to raise at least R2,5 billion. The assets comprise properties in the Group's South African property portfolio and a non-core business which will be identified when negotiations are sufficiently advanced.

Additional details are available in the group financial director's report on pages 30 and 31.

Improve project execution

There has been a heightened focus on addressing under-performance and implementing active risk management to improve project execution and ensure projects achieve the required margins.

A review of our operations has identified that while we have a sound risk management framework that governs the Group's approach to risk, the management of risk at operational level has not been successful at all operations.

To address this, Aveng has adopted a 'three lines of defence' model of risk management with clearly defined roles and responsibilities to identify, evaluate and manage opportunities, threats and uncertainties that could influence the Group's results, and ensure monitoring of compliance with the group risk management policies. Work continues on entrenching this process.

Additional details are available in the enterprise risk management section on pages 52 to 54.

McConnell Dowell and Aveng Grinaker-LTA have both taken steps to identify the root causes of project failures and introduced measures to address them. The objective of the process is to ensure that these causes are not repeated elsewhere in their operations and ensure projects are delivered on time, on budget and to specification. Internal processes and project guidelines have been strengthened to embed project execution standards across project lifecycles. Project teams have been strengthened and higher levels of engagement with clients have contributed to a clearer understanding of client needs and how best to fulfil them.

Commercial management capacity has been strengthened in both businesses. A commercial forum established during the year to manage commercial risks and opportunities, provides Aveng Grinaker-LTA with an early warning system and support for the realisation of opportunities. The forum has introduced transparency to the management of progress billings and uncertified revenue and it provides support to commercial teams that experience difficult commercial or legal challenges.

Strengthen leadership

Strong leadership is arguably the most important contributor to successful project execution. During the past year we have stemmed the outflow of experienced managers in critical areas of our Group and effected significant changes in operational management which have enabled us to allocate leadership to where it is most effective and address weak leadership in areas of underperformance.

The McConnell Dowell Board was strengthened during the year by the appointments of Ian Luck and Eric Diack as Non-Executive Directors who will play a key role in commercial and risk management. Ian is a seasoned Australian construction industry leader and Eric, a Non-Executive Director of Aveng and member of the Group's audit committee, has extensive experience in the South African industrial and mining industries.

There have also been changes to the operational structures and leadership of Australian operations and the pipelines business unit. Built Environs was separated from Australian operations, and senior management changes were made in Queensland and on the problem contracts to strengthen the focus of operational leadership.

Chris Botha, who has 21 years of experience across a range of disciplines in the domestic construction industry, was appointed Managing Director of Aveng Grinaker-LTA in January 2014. His management team was strengthened further by the appointment of Richard Evans as Divisional Managing Director of civils and earthworks in November 2013 and Andrew Langham as Financial Director in June 2014. Project teams were restructured during the year to reenergise their focus and increase production capacity on site. Performance contracts were introduced for the top 120 managers to strengthen accountability for performance.

Brian Wilmot was appointed acting Managing Director of Aveng Mining Shafts & Underground in June 2014. Brian was the former MD of Aveng Mining Moolmans and initiated the stabilisation and recovery intervention at Aveng Grinaker-LTA. He brings extensive experience to his new role, having spent 22 years in contract mining in Africa.

Wouter de Gidts, Managing Director of Lennings Rail Services, was appointed Managing Director of Aveng Manufacturing Facades in addition to his position at Lennings Rail Services. Richard Tembedza, a chartered accountant with experience in business development, was appointed interim Managing Director of Duraset with a specific mandate to turn around the performance of this business pending the appointment of a permanent managing director.

Strive for fatality-free operations

Safety is a core value and integral to the way we conduct business.

Regrettably, the Group suffered four fatalities during the year under review, one of whom was an employee of a service provider. This is unacceptable and it has galvanised us to work even harder to achieve fatality-free operations. A continuous improvement in a number of our safety performance statistics – the all injury frequency rate improved to 3,8 from 4,5 in 2013 – indicates that we are making steady progress towards the achievement of our ultimate objective of safe and fatality-free working environments.

Strategy

The Board and executive committee reviewed the Group's strategy and business model during the year to ensure that they enable the protection and growth of shareholder value in the current environment.

Recovery and stabilisation

Our first objective was to strengthen the Group's foundation by stabilising areas of weakness in our operations and leadership whilst restoring financial strength. The recovery and stabilisation plan launched during the year involved immediate measures to resolve and settle major outstanding project claims, restore cash flow liquidity and realign fixed overhead cost structures to the prevailing market conditions in selected businesses. In addition to the capital raising initiatives I have already referred to, we implemented programmes throughout the Group to strengthen working capital management and cash flow and further align fixed overhead costs with the streamlined business model and activity levels. The recovery and stabilisation plan is being implemented through the following eight work streams, each of which has a key objective and action items driven by senior executives at group and operating group levels who are accountable to myself:

- Risk management – Instil and improve risk management as a business imperative across the Group
- Cash management – Initiatives to manage cash flow, monitor progress in recovery of claims against milestones and timelines, and reduce cash outflows
- Cost management – Targets and timelines to achieve sustainable cost reduction
- Strategy execution – Complete the reorganisation of Aveng
- Performance management – Ensure that there are no underperforming business units or projects
- Skills development – Improve skills throughout the Group within the next 12 months
- Culture management – Instil a revitalised culture aligned to the Aveng DNA across the Group
- Communication – Ensure clear and effective communication across all internal and external stakeholders
- Customer focus – Improve relationships with clients, broaden the client base and improve value offering to clients.

Additional details are available in the strategy section on pages 58 to 61.

Chief executive officer's review continued

Targeted returns and growth

The recovery and stabilisation plan is at an advanced stage and will establish a solid foundation for the Group to optimise the performance of its operations and take advantage of growth opportunities in South Africa, rest of Africa, Australasia and Asia.

Our second objective was to formalise a plan to enable each operating group to achieve its full profit potential. An asset review was undertaken by the management team involving a critical assessment of the portfolio of businesses, their competitive advantages, the markets in which they operate, the future potential of those markets, and the combined strength of the Group. The assessment concluded that 60% to 80% of our businesses are either within or close to strong medium-term to long-term growth markets, and the majority of our business units have the capacity to deliver acceptable returns within the range of returns achieved in their respective market sectors.

We defined, and secured Board approval for, growth, return and cash flow performance targets and a strategy for each operating group, aligned with the Group's strategy and supported by eight work streams, to achieve the Group's short-term to medium-term financial performance targets which have been outlined in the group financial director's report on page 31.

Order book

The Aveng Group's two-year order book amounted to R40,9 billion at 30 June 2014, an 11% increase compared to 31 December 2013 (R36,7 billion) and a 9% improvement compared to 30 June 2013 (R37,4 billion).

Within the Construction and Engineering: Australasia and Asia segment, the two-year order book remained relatively flat compared to the previous year but increased by 19% to R24,1 billion from December 2013, reflecting new contracts awarded, particularly in the marine, civil and rail sectors in New Zealand, Pacific Islands and Australia.

The Construction and Engineering: South Africa and rest of Africa segment order book increased by 4% to R7,4 billion compared to the previous year, but declined by 14% from R8,5 billion at 31 December 2013, reflecting the delayed rollout of construction projects in South Africa and a more judicious approach to project selection.

The combined order book of Aveng Mining increased by 43% to R8,6 billion compared to the previous year due to new contracts in South Africa in both the open cut and shafts and underground environments.

The geographic split of the two-year order book at 30 June 2014 is 59% Australasia and Asia (2013: 61%), 35% South Africa (2013: 29%), 5% in the rest of Africa (2013: 9%), and an unchanged 1% in South America. Based on the current slowing down of McConnell Dowell's traditional markets in Australia and ongoing weakness in the South African construction market, Aveng has intensified efforts to increase its presence in the strong growth markets of Southeast Asia (road and rail transport infrastructure), the Middle East (oil and gas, petrochemical, water) and the rest of Africa (mining, transport infrastructure).

We will continue to monitor and manage the quality and risk profile of the order book as we strengthen our operational risk management processes, become more judicious in selecting projects with sustainable profit margins and diversify the portfolio of projects in growth markets where we have a strategic advantage.

Outlook

McConnell Dowell has broadened its focus to position its Australian business units for available opportunities in transport, building, industrial construction and plant maintenance projects across the country, while investment in oil and gas continues to offer potential. Road and water projects offer ongoing opportunities in New Zealand. The Asia and Middle East markets represent significant growth potential, with infrastructure investment continuing to fuel development in Southeast Asia, albeit in strongly contested markets, and ongoing investment in the UAE's traditional oil and gas and petrochemical markets as well as other sectors in support of the region's diversification strategy.

McConnell Dowell has, with the exception of the project challenges experienced in the past two years, delivered a consistently strong return on investment. We are confident that these challenges are being adequately addressed.

Significant progress continues to be made in key focus areas intended to stabilise Aveng Grinaker-LTA, address its challenges in underperforming contracts and return it to sustainable profitability. There is a strong drive within the business to optimise the balance between the core functions of building, civil and earthworks engineering, and mechanical and electrical engineering in order to strengthen earnings performance, and diversify the portfolio of projects based on client, country, and competency to mitigate risk.

In Aveng Mining, Moolmans is working on significant long-term projects in South Africa and pursuing opportunities in copper, zinc and coal in southern Africa and iron ore in West Africa to restore its order book strength in the rest of Africa. Shafts & Underground is well positioned for a number of opportunities in South Africa, while its expertise in deep-level shaft sinking strengthens its prospects of securing additional work in the Chilean copper industry.

It is anticipated that investment in the mining industry will remain constrained until the 2016 financial year, and the lead times to secure new projects will continue to be lengthy. In this environment, Aveng Moolmans and Aveng Shafts & Underground will both focus on consolidating their positions by improving internal operational efficiencies and targeting projects of a longer duration with viable profit margins.

Aveng Manufacturing enters challenging market environments in a strong position in the 2015 financial year. The business has demonstrated its ability to capitalise on significant opportunities in rail-related infrastructure development in South Africa, Mozambique and Zambia, with limited capital investment. The operating group is pursuing additional opportunities for rail maintenance and concrete products in the rest of Africa and the Middle East, and continues to experience growth in the export of its water valve products.

The steel industry will remain under pressure in 2015, with no significant improvement in prices or demand anticipated in the current economic environment. This will require a medium-term intervention to adjust the business model of Aveng Trident Steel, and we are considering a number of options in this regard. Aveng Steeledale and Aveng Steel Fabrication will both maintain their focus on extending the good progress already achieved in turning their businesses around, into sustainable profitability.

Aveng is at an advanced stage of addressing areas of underperformance and the Group is proceeding with a clear plan to stabilise and strengthen its financial position. As we attend to the complex claims processes currently underway, we will maintain our strong focus on achieving the financial performance targets we have set for the Group.

HJ Verster
Chief Executive Officer

Financial director's review

In order to guide the strategy of recovery and stabilisation as well as optimisation and future growth, acceptable return parameters have been put in place for each business. Their ability to sustainably deliver against these in the medium to long term will be closely monitored.

Kobus Verster Acting Group Financial Director

Financial performance overview

Statement of comprehensive earnings

Revenue of R53 billion remained largely flat against the prior year's R51,7 billion, reflecting a period of consolidating growth. The marginal decrease in Australian dollar-denominated revenue at McConnell Dowell is attributable to the completion of mega-contracts such as Queensland Curtis Liquefied Natural Gas Pipeline (QCLNG) and the Gold Coast Rapid Transit (GCRT) project. The weaker South African rand foreign exchange rate contributed R1,6 billion (2013: R3,4 billion) to rand-denominated revenue from the Construction and Engineering: Australasia and Asia and the Mining operating segments.

Aveng Mining reported a decrease in *revenue* due to the non-renewal and completion of contracts in West and Central Africa, offset by strong growth achieved by the Manufacturing and Processing operating segment, and growth in renewable energy projects in South Africa.

The Group's 11% increase in *gross earnings* to R3,8 billion was attributable to good profit margins from Aveng Mining and Aveng Manufacturing, and the improved loss position at Aveng Grinaker-LTA compared to the prior year. The stabilisation and recovery process at Aveng Grinaker-LTA is beginning to yield results, while the Manufacturing and Processing operating segment reported improved results compared to the prior year, mainly due to solid performances by the non-mining-related businesses. The open cut mining business continued to generate acceptable margins albeit on lower revenue due to a reduction in mining activities in the rest of Africa. Margins at Aveng Steel were negatively affected by weak demand, lower-than-expected steel prices and labour disruptions.

Operating expenses of R3,4 billion increased marginally against the comparative period with a below inflation increase. Operating expenses have remained flat as a percentage of revenue. Ongoing optimisation and efficiency initiatives have resulted in savings, specifically evident in the second half of the year.

Group *net operating earnings* increased by 20% to R784 million (2013: R656 million) as a result of:

— a significant 37% reduction in the net operating losses of Aveng Grinaker-LTA
— a robust 55% increase in net operating earnings in the Manufacturing and Processing segment
— Aveng Mining Shafts & Underground experiencing a 147% increase in net operating earnings, having avoided receivable write-downs of the previous year
— The performance was negatively affected by significant losses from McConnell Dowell's GCRT contract and, while the impact of labour disruptions was reduced, the direct cost was still material at R179 million (2013: R350 million).

Goodwill and related intangible assets arising from the 2001 merger of Grinaker and LTA, with a carrying amount of R756 million, were impaired. In addition, goodwill of R75 million associated with Aveng Water was also impaired. The impairment affected the earnings per share of the Group while the headline earnings per share remained unaffected.

Revaluation of *investment property* amounted to R15 million, as a result of improved returns from the Group's stake in the Goldfields Mall property. (Refer to page 38, *note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications* of the summarised consolidated annual financial statements).

The increase in earnings from *equity-accounted investments* to R33 million was attributable to an improved performance by McConnell Dowell's Middle East investments and earnings generated by the renewable energy projects.

Cash and bank balances	**R4,1 billion** Increase of 6% from June 2013
Net cash position	**R1,3 billion** Decrease of 46% from June 2013

The Group's investment in N3 Toll Concession (N3TC) Company Proprietary Limited is classified as an *available-for-sale investment.* The valuation of Aveng's share in N3TC was determined as R126 million, resulting in a positive impact on reserves of R114 million which was not reflected in earnings or headline earnings (refer to page 38, note 3 of summarised consolidated annual financial statements).

Net finance expenses increased to R183 million, largely due to additional financing charges as a result of higher borrowings to fund increased working capital requirements associated with major contracts, and asset-based finance at Aveng Moolmans. Borrowings of R2,9 billion increased by R1,4 billion compared to R1,5 billion at June 2013.

Group *earnings before taxation* for the period decreased by 134% to a loss of R215 million, mainly attributable to the goodwill and related intangible asset impairments of Aveng Grinaker-LTA and Aveng Water.

Taxation expense decreased marginally to R161 million (2013: R167 million). This resulted in an effective tax rate (excluding the impact of impairments) of 26% (2013: 27%). The reduction was attributable to the recognition of an additional deferred tax asset raised in McConnell Dowell as a consequence of assessed losses derived in the New Zealand region.

The loss per share (LPS) of 101.9 cents decreased 182%, adjusted earnings per share (AEPS) of 120.3 cents decreased 4% (2013: EPS and AEPS 124.6 cents) and headline earnings per share (HEPS) of 112.5 cents decreased by 10%. AEPS modifies LPS by eliminating the impact of the aforementioned impairments.

Statement of financial position

The Group reduced capital expenditure to R1,2 billion (2013: R1,5 billion), applied to R384 million in expansions and R677 million in replacements relating to *property, plant and equipment,* and R176 million to *intangible assets*. The majority of the amount was spent as follows:

- R243 million in support of new contracts at McConnell Dowell
- R259 million at Aveng Moolmans of which R108 million was for new contract awards and R97 million for volume expansions attributable to existing mining operations in South Africa
- R404 million in the Manufacturing and Processing segment comprising R288 million for expansions and R116 million for replacements. The capital expenditure mainly related to the high-tensile cut-to-length line in KwaZulu-Natal, an ERP system for Aveng Trident Steel and outlays for the Nacala rail contract
- R123 million at Aveng Grinaker-LTA comprising R94 million for expansions and R29 million for replacements. The outlay mainly related to assets purchased for the Nacala rail contract of R57 million.

Amounts due from contract customers (non-current and current) increased to R11,4 billion from R9,3 billion, largely as a result of an increase in unsettled claims, mainly associated with the QCLNG and GCRT contracts. The increase was in part offset by a decrease in *contract and retention receivables.* In addition to this, *provisions for problematic contracts* of R1,1 billion (2013: R1,1 billion) were reallocated from *provisions* to *amounts due from contract customers* to reflect the net risk exposure implicit in uncertified revenue.

Financial director's review continued

Amounts due to contract customers increased by 13% to R2,7 billion from the prior period. The increase is due to higher progress billings and amounts received in advance, with McConnell Dowell contributing R1,6 billion to the balance.

Trade and other payables increased by R755 million largely due to improved payment terms negotiated in the Manufacturing and Processing segment. Included in the balance is an advance payment from the QCLNG contract amounting to AUD142,5 million, of which AUD30 million was settled subsequent to year end, with the remainder anticipated to be settled by December 2014. *Provisions other than contract-related* decreased to R197 million compared to R283 million in the prior period due to the first payment to the Competition Commission in terms of the administrative levy settlement concluded in the prior financial year.

The non-resolution of claims has put pressure on the Group's cash flow, with *operating free cash flow* culminating in an outflow of R1,4 billion (2013: R1,5 billion). Although cash reserves have remained largely intact, the increased working capital requirements from McConnell Dowell, and the ongoing operational losses at Aveng Grinaker-LTA have resulted in increased borrowings, specifically in South Africa. Borrowings have increased from R1,5 billion at June 2013 to R2,9 billion in June 2014. The Group's net cash position deteriorated to R1,3 billion from R2,4 billion in June 2013. The Board remains confident that the claims recognised in uncertified revenue should be positively resolved. However, their complexity and the protracted negotiations with the clients may delay their resolution, which represents an earnings risk to the Group.

Focus areas and outlook

A number of initiatives in the Group's strategy have a direct bearing on its financial performance and position and will be focus areas for group management with the requisite levels of accountability in the year to follow as set out below:

Order book mix and risk profile

The Group's two-year order book increased to R40,9 billion at 30 June 2014, an increase of 9% compared with the R37,4 billion two-year order book reported at 30 June 2013.

Within the Construction and Engineering: Australasia and Pacific segment, the two-year order book remained relatively flat at R24,1 billion, the Construction and Engineering: South Africa and rest of Africa segment order book increased by 7% to R7,4 billion, and the order book of Aveng Mining increased by 43% to R8,6 billion.

The quality and risk profile of the Group's order book will receive ongoing focus and attention in line with initiatives to:

— streamline tender risk processes and improved ability to appropriately price and structure risk into contract pricing and terms
— avoid marginal contracts and sub-optimal contract terms even if at the risk of reduced volumes
— diversify the portfolio of contracts from a geographic and sector perspective, focusing on achieving competitive advantage in optimal sectors and geographies.
— growth of order book in selected regions in Africa and Southeast Asia.

Working capital and cash flow

Managing the extent of cash historically utilised through increased working capital and operating losses will be a focal area from a number of perspectives, including:

— cash management initiatives, including active management of inventory levels, customer and supplier accounts and addressing specific operating group cash issues to ensure each operating group budgets for a positive cash flow
— preparation and monitoring of operating group plans for recovery of claims, including disciplined milestones and timelines
— cost management initiatives to reduce and defer operational cash outflows.

Optimal funding models and liquidity

In line with the strategic objective to strengthen the financial position of the Group the Board decided to diversify the Aveng Group's funding sources, extend the debt maturity profile and reduce overall debt levels and cost of debt to enable the Group to pursue contract claims to a positive conclusion and take advantage of growth opportunities. To this end, the Group has:

— Subsequent to its year end reporting date, successfully placed 7,25% senior unsecured convertible bonds maturing on 24 July 2019 for a principal amount of R2 billion in July 2014. The bonds are convertible at a premium of 30% on the reference share price at the option of the bond-holders (currently R28,76 but may be adjusted downwards as outlined below), subject to approval of shareholders at a meeting to be convened on 19 September 2014. Aveng will have the option to effectively force conversion immediately any time after 7 August 2017 if the weighted average price of the shares is at least 130% of the then determined conversion price for at least 20 out of 30 consecutive trading days. The convertible bond will only become dilutive for ordinary shareholders when the current share price is trading above R28,76 subject to certain downward adjustments to the conversion price due to dividend declaration and other customary bondholder protection clauses.

- Embarked on a programme to dispose of non-core assets with the objective of raising at least R2,5 billion. The assets to be disposed comprise properties and a business unit which cannot be identified at present due to the nature of the process.
- Adequate funding facilities available due to arranging revolving credit facilities of R2 billion, an 18-month credit bridge facility (backed by the sale of properties) of R1 billion and the convertible bond of R2 billion.

These steps, together with cash management and turnaround initiatives in place, will allow the Group to manage its liquidity needs, reduce its level and cost of borrowings and position the business to take advantage of growth opportunities in Africa, Australasia and the Pacific.

Fixed overheads alignment

An intensive programme has been undertaken to realign fixed overhead cost structures to ensure future sustainability. The plan is well advanced and forms a stable foundation for the optimisation and growth of our businesses.

Acceptable return thresholds set for businesses

In order to guide the strategy of recovery and stabilisation as well as optimisation and future growth, acceptable return parameters have been put in place for each business. Their ability to sustainably deliver against these in the medium to long-term will be closely monitored.

These performance targets, to be achieved through the cycle, have been set for the Group as a whole and agreed by the Board as follows:

— Headline earnings growth	Real 8%
— Return on invested capital (ROIC)	Minimum of 15%
— Operating free cash flow before expansion capital expenditure	Positive throughout cycle

HJ Verster
Acting Group Financial Director

Audited summarised consolidated annual financial statements

Statement of financial position

as at 30 June 2014

	Notes	**Audited 2014 Rm**	Audited 2013* Rm	Audited 2012* Rm
ASSETS				
Non-current assets				
Investment property	5	**86**	71	–
Property, plant and equipment	5	**6 346**	6 789	6 666
Goodwill arising on consolidation	6	**663**	1 425	1 384
Intangible assets	5 / 6	**321**	184	165
Equity-accounted investments		**306**	144	105
Available-for-sale investments		**190**	70	146
Deferred taxation assets	7	**1 403**	1 347	998
Amounts due from contract customers*	8	**2 946**	2 520	241
		12 261	12 550	9 705
Current assets				
Inventories		**2 793**	2 780	2 467
Amounts due from contract customers*	8	**8 405**	6 737	6 648
Trade and other receivables*		**2 785**	2 773	2 739
Cash and bank balances*	9	**4 136**	4 120	4 852
Non-current assets held-for-sale	10	**607**	—	—
		18 726	16 410	16 706
TOTAL ASSETS		**30 987**	28 960	26 411
EQUITY AND LIABILITIES				
Equity				
Share capital and share premium		**2 008**	1 388	1 435
Reserves*		**1 220**	748	546
Retained earnings*		**10 157**	11 159	10 920
Equity attributable to equity-holders of parent		**13 385**	13 295	12 901
Non-controlling interest		**11**	12	10
		13 396	13 307	12 911
Liabilities				
Non-current liabilities				
Deferred taxation liabilities	7	**257**	319	299
Borrowings and other liabilities		**2 303**	1 312	748
Payables other than contract-related*	11	**102**	181	307
Employee-related payables*		**682**	462	369
		3 344	2 274	1 723
Current liabilities				
Amounts due to contract customers*	8	**2 677**	2 367	2 271
Borrowings and other liabilities		**564**	219	180
Payables other than contract-related*	11	**95**	102	—
Employee-related payables*		**893**	1 208	1 142
Trade and other payables*		**9 805**	9 050	7 894
Taxation payable		**213**	210	242
Bank overdraft*	9	**—**	223	48
		14 247	13 379	11 777
TOTAL LIABILITIES		**17 591**	15 653	13 500
TOTAL EQUITY AND LIABILITIES		**30 987**	28 960	26 411

** Comparatives have been amended as detailed in note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications.*

Statement of comprehensive earnings

for the year ended 30 June 2014

	Notes	Audited 2014 Rm	Audited 2013* Rm
Revenue		**52 959**	51 704
Cost of sales		**(49 122)**	(48 233)
Gross earnings		**3 837**	3 471
Other earnings*		**254**	430
Operating expenses*		**(3 373)**	(3 274)
Operating earnings before other gains and losses		**718**	627
Earnings / (loss) from equity-accounted investments		**33**	(12)
Share of dividend earnings from available-for-sale investments		**33**	41
Net operating earnings		**784**	656
Impairment of non-financial assets**	6	**(831)**	—
Fair value adjustments		**15**	—
Finance earnings		**136**	132
Finance and transaction expenses		**(319)**	(162)
(Loss) / earnings before taxation		**(215)**	626
Taxation	12	**(161)**	(167)
(LOSS) / EARNINGS FOR THE PERIOD		**(376)**	459
Other comprehensive earnings			
Items that may be subsequently recycled to earnings (net of taxation)			
Exchange differences on translating foreign operations		**402**	196
Available-for-sale fair value reserve		**93**	—
Other comprehensive loss from equity-accounted investments		**(28)**	—
Other comprehensive earnings for the period		**467**	196
Total comprehensive earnings for the period		**91**	655
Total comprehensive earnings for the period attributable to:			
Equity-holders of the parent*		**86**	661
Non-controlling interests		**5**	(6)
		91	655
(Loss) / earnings for the period attributable to:			
Equity-holders of the parent		**(381)**	466
Non-controlling interest		**5**	(7)
		(376)	459
Other comprehensive earnings for the period attributable to:			
Equity-holders of the parent		**467**	195
Non-controlling interest		**—**	1
		467	196

EBITDA for the Group being net operating earnings before depreciation and amortisation is R1 693 million (2013: R1 887 million).

* *Comparatives have been amended as detailed in note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications.*

** *The impairment of goodwill and related intangible assets was published by the Group in the trading statement on 2 July 2014, amounting to R830 million. However, as a result of rounding, the amount is presented as R831 million in the statement of comprehensive earnings.*

Audited summarised consolidated annual financial statements continued

Statement of comprehensive earnings continued

for the year ended 30 June 2014

	Audited 2014 Rm	Audited 2013* Rm
Results per share (cents)		
(Loss) / earnings – basic	**(101,9)**	124,6
Adjusted earnings	**120,3**	124,6
Headline earnings	**112,5**	124,6
Diluted (loss) / earnings	**(94,8)**	115,9
Diluted adjusted earnings	**111,9**	115,9
Diluted headline earnings	**104,7**	115,9
Number of shares (millions)		
In issue	**416,7**	389,8
Weighted average	**374,0**	374,0
Diluted weighted average	**402,1**	402,1

	2014		2013	
	Gross of taxation Rm	**Net of taxation Rm**	Gross of taxation Rm	Net of taxation Rm
Determination of headline earnings				
Earnings for the year attributable to equity-holders of the parent*	**–**	**(381)**	–	466
Impairment of goodwill	**816**	**816**	–	–
Impairment of intangibles	**15**	**15**	–	–
*Adjusted earnings***		**450**		466
Earnings on sale of property, plant and equipment	**(25)**	**(18)**	(2)	(1)
Impairment of property, plant and equipment	**–**	**–**	2	1
Fair value adjustment on investment property	**(15)**	**(11)**	–	–
Headline earnings		**421**		466

* *Earnings and adjusted earnings are calculated in accordance with IAS 33* Earnings per share. *Earnings is based on the earnings attributable to equity-holders of the parent. Headline earnings are calculated in accordance with Circular 2 / 2013.*

** *Adjusted earnings exclude impairment of goodwill and related intangible assets.*

Statement of cash flows

for the year ended 30 June 2014

	Notes	Audited 2014 Rm	Audited 2013* Rm
Operating activities			
Cash (utilised) / retained from operations		**(98)**	627
Depreciation		**881**	1 181
Amortisation		**28**	50
Non-cash and other movements		**549**	(337)
Cash generated by operations		**1 360**	1 521
Changes in working capital:			
Increase in inventories		**(13)**	(313)
Increase in amounts due from contract customers		**(2 094)**	(2 368)
Increase in trade and other receivables		**(12)**	(34)
Increase in amounts due to contract customers		**310**	96
Increase in trade and other payables		**755**	1 156
Decrease in payables other than contract-related		**(102)**	—
(Decrease) / increase in employee-related payables		**(106)**	159
Total changes in working capital		**(1 262)**	(1 304)
Cash generated by operating activities		**98**	217
Finance and transaction expenses paid		**(283)**	(164)
Finance earnings received		**127**	126
Taxation paid		**(252)**	(464)
Cash outflow from operating activities		**(310)**	(285)
Investing activities			
Property, plant and equipment purchased			
– expansion	5	**(384)**	(459)
– replacement	5	**(677)**	(925)
Proceeds on disposal of property, plant and equipment		**256**	165
Acquisition of investment property	5	**—**	(71)
Acquisition of intangible assets	5	**(176)**	(29)
Proceeds on disposal of intangible assets		**—**	2
Movement in equity-accounted investments		**(140)**	(39)
Acquisition of subsidiary		**—**	(9)
Proceeds from sale of available-for-sale investment		**—**	80
Dividend earnings		**33**	41
Cash outflow from investing activities		**(1 088)**	(1 244)
Operating free cash outflow		**(1 398)**	(1 529)
Financing activities with equity-holders			
Shares repurchased		**(7)**	(47)
Dividends paid		**(6)**	(242)
Financing activities with debt-holders			
Proceeds from borrowings raised		**1 336**	603
Net decrease in cash and bank balances before foreign exchange movements on cash		**(75)**	(1 215)
Foreign exchange movements on cash and bank balances		**314**	308
Cash and bank balances at the beginning of the year		**3 897**	4 804
Total cash and bank balances at the end of the year	9	**4 136**	3 897
Borrowings excluding bank overdrafts		**2 867**	1 531
Net cash position		**1 269**	2 366

** Comparatives have been amended as detailed in note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications.*

Audited summarised consolidated annual financial statements continued

Statement of changes in equity

for the year ended 30 June 2014

	Share capital Rm	Share premium Rm	**Total share capital and premium Rm**	Foreign currency translation reserve* Rm	Available-for-sale fair value reserve Rm
Opening balance as previously reported	19	1 416	**1 435**	546	—
Adoption of new *IFRS 10* accounting standard (refer to *note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications)*	—	—	**—**	—	—
Balance at 1 July 2012 as restated	19	1 416	**1 435**	546	—
Earnings for the period	—	—	**—**	—	—
Other comprehensive earnings for the period (net of taxation)	—	—	**—**	195	—
Total comprehensive earnings for the period	—	—	**—**	195	—
Movement in treasury shares	—	(47)	**(47)**	—	—
Transfer between reserves	—	—	**—**	(14)	—
Business combination – acquisition of subsidiary	—	—	**—**	—	—
Dividends paid**	—	—	**—**	—	—
Total contributions and distributions recognised directly in equity	—	(47)	**(47)**	(14)	—
Balance at 1 July 2013 restated	19	1 369	**1 388**	727	—
Earnings for the period	—	—	**—**	—	—
Other comprehensive earnings for the period (net of taxation)	—	—	**—**	402	93
Total comprehensive earnings for the period	—	—	**—**	402	93
Movement in treasury shares	—	(1)	**(1)**	—	—
Issue of shares to BEE consortium***	1	620	**621**	—	—
Dividends paid	—	—	**—**	—	—
Total contributions and distributions recognised directly in equity	1	619	**620**	—	—
Balance at 30 June 2014	20	1 988	**2 008**	1 129	93

* *The foreign currency translation reserve represents the net movement for all the translation movements between the presentational currency of South African rand, and the various functional currencies that the subsidiaries and other joint operations operate in.*

** *The final dividend of 2012.*

*** *The issue of 26 832 834 shares was recorded at fair value of the consideration given, being the closing share price at the date of issue on 30 June 2014.*

Equity-accounted investments reserve Rm	Equity-settled share-based payment reserve Rm	Insurance reserve Rm	**Total other reserves Rm**	Retained earnings Rm	**Total attributable to equity-holders of the parent Rm**	Non-controlling interest Rm	**Total equity Rm**
—	—	56	**602**	10 864	**12 901**	10	**12 911**
—	—	(56)	**(56)**	56	**—**	—	**—**
—	—	—	**546**	10 920	**12 901**	10	**12 911**
—	—	—	**—**	466	**466**	(7)	**459**
—	—	—	**195**	—	**195**	1	**196**
—	—	—	**195**	466	**661**	(6)	**655**
—	21	—	**21**	—	**(26)**	—	**(26)**
—	—	—	**(14)**	14	**—**	—	**—**
—	—	—	**—**	—	**—**	9	**9**
—	—	—	**—**	(241)	**(241)**	(1)	**(242)**
—	21	—	**7**	(227)	**(267)**	8	**(259)**
—	21	—	**748**	11 159	**13 295**	12	**13 307**
—	—	—	**—**	(381)	**(381)**	5	**(376)**
(28)	—	—	**467**	—	**467**	—	**467**
(28)	—	—	**467**	(381)	**86**	5	**91**
—	5	—	**5**	—	**4**	—	**4**
—	—	—	**—**	(621)	**—**	—	**—**
—	—	—	**—**	—	**—**	(6)	**(6)**
—	5	—	**5**	(621)	**4**	(6)	**(2)**
(28)	26	—	**1 220**	10 157	**13 385**	11	**13 396**

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Audited summarised consolidated annual financial statements continued

Accounting policies to the summarised consolidated annual financial statements

1. Corporate information

The summarised consolidated annual financial statements of the Group for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the directors on 25 August 2014.

Aveng Limited is a limited liability company incorporated and domiciled in the Republic of South Africa whose shares are publicly traded. The Group operates in the construction, engineering and mining environment and as a result the revenue is not seasonal in nature, but is influenced by the nature and execution of the contracts currently in progress. Refer to the commentary on pages 64 to 91 for a detailed report on the performance of the different operating segments within the Group.

2. Basis of preparation and accounting policy

The summarised consolidated annual financial statements have been prepared on a historical cost basis, except for certain financial assets which are measured at fair value.

These summarised consolidated annual financial statements are presented in South African rand ("ZAR") and all values are rounded to the nearest million ("Rm") except where otherwise indicated. The summarised consolidated annual financial statements are prepared in accordance with IAS 34 – *Interim Financial Statements* and the Listings Requirements of the JSE Stock Exchange Limited ("JSE"). The accounting policies adopted are consistent with those of the previous year, except for the adoption of new and revised standards and interpretations that became effective during this reporting period.

The summarised financial results do not include all the information and disclosures required in the consolidated annual financial statements, and should be read in conjunction with the Group's audited consolidated annual financial statements as at 30 June 2014 that are available on the company's website, www.aveng.co.za.

The annual financial results have been prepared under the supervision of the Chief Executive Officer ("CEO") and acting Group Financial Director, Mr HJ Verster.

The results have been audited by Ernst & Young Incorporated and the unqualified audit opinion is available on request from the company secretary at the Company's registered office and our website at www.financialresults.co.za/2014/aveng-integrated-report-2014/sumauditopinion.

Contracting revenue

The Group uses the percentage of completion method in accounting for its construction contracts. Use of the percentage of completion method requires the Group to estimate the construction services and activities performed to date as a proportion of the total services and activities to be performed. In addition, judgements are required when recognising and measuring any variations or claims on each contract.

3. New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications

As part of the Group's financial reporting improvement initiatives, the structure, format and presentation of disclosures in the summarised consolidated annual financial statements were reviewed. This resulted in the reallocation of certain comparative amounts.

For more detail on new accounting standards and interpretations adopted, changes in accounting policies and other reclassifications, refer to the full consolidated annual financial statements available on the Group's website.

Change in accounting policy – Investment property

During the year, the Group changed its accounting policy on investment property from the cost model to the fair value model. There is no impact in the prior year as the property was acquired late in June 2013 and the fair value approximated the cost at the acquisition date. Earnings and losses arising from changes in the fair value of investment properties are included in earnings in the period in which they arise.

N3 Toll concession ("N3TC")

In prior years the available-for-sale investment in N3TC was shown at cost, which approximated fair value, due to limited marketability and reliable valuation methodologies for investments of this nature.

As a result of the adoption of *IFRS 13 – Fair value measurement*, and a single framework being applied for all fair value measurements, the fair value of the investment was determined by calculating the present value of the projected equity cash flows related to the Group's 10,9% shareholding, based on the risk-adjusted discount rate of 18%. The projected equity cash flows comprising dividends and equity investments were sourced from the updated N3TC financial model. The financial model forecasts revenue (toll pricing and traffic volume), operating costs, capital expenditure and other relevant financial performance measures over the concession term.

Notes to the summarised consolidated annual financial statements

4. Segmental report

The Group has determined four reportable segments that are largely organised and managed separately according to the nature of products and services provided.

These operating segments are components of the Group:
— that engage in business activities from which they earn revenues and incur expenses; and
— which have operating results that are regularly reviewed by the Group's chief operating decision makers to make decisions about resources to be allocated to the segments and assess their performance.

Segment report 2014 (Rm)	Construction and Engineering: South Africa and the rest of Africa	Construction and Engineering: Australasia and Asia	Mining	Manufacturing and Processing	Administration and Eliminations	Total
External revenue	8 105	28 169	6 581	9 958	146	52 959
Internal revenue	438	—	1	654	(1 093)	—
Gross revenue	8 543	28 169	6 582	10 612	(947)	52 959
Cost of sales	(8 529)	(26 594)	(5 708)	(9 459)	1 168	(49 122)
Gross earnings	14	1 575	874	1 153	221	3 837
Other earnings	48	(10)	(14)	248	(18)	254
Operating expenses	(662)	(1 296)	(332)	(1 036)	(47)	(3 373)
Operating (loss) / earnings before other gains and losses	(600)	269	528	365	156	718
Earnings / (loss) from equity-accounted investments	27	2	1	(1)	4	33
Share of dividend earnings from available-for-sale investments	7	—	—	—	26	33
Net operating (loss) / earnings	(566)	271	529	364	186	784
Impairment of non-financial assets	—	—	—	—	(831)	(831)
Fair value adjustment	—	—	—	—	15	15
Finance earnings	53	39	17	11	16	136
Finance and transaction expenses	(63)	(101)	(59)	(7)	(89)	(319)
(Loss) / earnings before taxation	(576)	209	487	368	(703)	(215)
Taxation	152	(14)	(163)	(110)	(26)	(161)
(Loss) / earnings after taxation	(424)	195	324	258	(729)	(376)
Capital expenditure*	152	243	298	406	138	1 237
Depreciation	(85)	(258)	(407)	(112)	(19)	(881)
Amortisation	(13)	—	—	(5)	(10)	(28)

** Segment capital expenditure includes an intangible asset investment R176 million.*

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4. Segmental report (continued)

Segment report 2013 (Rm)*	Construction and Engineering: South Africa and the rest of Africa**	Construction and Engineering: Australasia and Asia	Mining	Manu-facturing and Processing**	Adminis-tration and Eliminations	Total
External revenue	7 173	26 749	7 435	10 146	201	51 704
Internal revenue	219	—	—	409	(628)	—
Gross revenue	7 392	26 749	7 435	10 555	(427)	51 704
Cost of sales	(7 738)	(24 918)	(6 427)	(9 477)	327	(48 233)
Gross (loss) / earnings	(346)	1 831	1 008	1 078	(100)	3 471
Other earnings	140	5	71	191	23	430
Operating expenses	(765)	(1 192)	(381)	(1 034)	98	(3 274)
Operating (loss) / earnings before other gains and losses	(971)	644	698	235	21	627
(Loss) / earnings from equity-accounted investments	(2)	(5)	2	—	(7)	(12)
Share of dividend earnings from available-for-sale investments	5	—	1	—	35	41
Net operating (loss) / earnings	(968)	639	701	235	49	656
Finance earnings	39	57	11	11	14	132
Finance and transaction expenses	(8)	(80)	(43)	(10)	(21)	(162)
(Loss) / earnings before taxation	(937)	616	669	236	42	626
Taxation	472	(157)	(315)	(36)	(131)	(167)
(Loss) / earnings after taxation	(465)	459	354	200	(89)	459
Capital expenditure***	47	384	615	306	106	1 458
Depreciation	(93)	(402)	(581)	(93)	(12)	(1 181)
Amortisation	(11)	—	—	(10)	(29)	(50)

* *Comparatives have been amended as detailed in note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications.*

** *Aveng Steel Fabrication ("ASF"), Aveng Manufacturing Automation & Control Solutions ("A&CS") and Aveng Manufacturing Facades business units are now reported under the Manufacturing and Processing segment compared to the Construction and Engineering: South Africa and the rest of Africa segment in the prior year. Comparatives have been adjusted.*

*** *Segment capital expenditure includes an intangible asset investment of R29 million.*

4. Segmental report (continued)

Segment report 2014 (Rm)	Construction and Engineering: South Africa and the rest of Africa	Construction and Engineering: Australasia and Asia	Mining	Manu-facturing and Processing	Adminis-tration and Eliminations	Total
ASSETS						
Investment property	–	–	–	–	86	86
Property, plant and equipment	702	1 170	2 746	1 374	354	6 346
Goodwill arising on consolidation	–	431	–	–	232	663
Intangible assets	6	35	–	155	125	321
Equity-accounted investments	18	56	4	–	228	306
Available-for-sale investments	–	64	–	–	126	190
Deferred taxation assets	965	472	238	(102)	(170)	1 403
Amounts due from contract customers	2 185	8 085	997	534	(450)	11 351
Inventories	98	23	304	2 368	–	2 793
Trade and other receivables	242	174	93	1 980	296	2 785
Cash and bank balances	330	2 830	466	720	(210)	4 136
Non-current assets held-for-sale	–	–	–	–	607	607
TOTAL ASSETS	4 546	13 340	4 848	7 029	1 224	30 987
LIABILITIES						
Deferred taxation liabilities	2	–	211	18	26	257
Borrowings and other liabilities	–	862	653	7	1 345	2 867
Employee-related payables	196	886	230	151	112	1 575
Amounts due to contract customers	669	1 612	231	106	59	2 677
Trade and other payables	1 368	5 202	824	2 307	104	9 805
Taxation payable	18	61	95	–	39	213
Payables other than contract-related	197	–	–	–	–	197
TOTAL LIABILITIES	2 450	8 623	2 244	2 589	1 685	17 591

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4. Segmental report (continued)

Segment report 2013 (Rm)*	Construction and Engineering: South Africa and the rest of Africa**	Construction and Engineering: Australasia and Asia	Mining	Manu-facturing and Processing**	Adminis-tration and Eliminations	Total
ASSETS						
Investment property	—	—	—	—	71	71
Property, plant and equipment	647	1 146	2 872	1 401	723	6 789
Goodwill arising on consolidation	—	377	—	—	1 048	1 425
Intangible assets	16	32	—	57	79	184
Equity-accounted investments	(10)	49	3	—	102	144
Available-for-sale investments	—	58	—	—	12	70
Deferred taxation assets	823	451	188	82	(197)	1 347
Amounts due from contract customers	1 895	6 409	1 061	467	(575)	9 257
Inventories	129	17	292	2 342	—	2 780
Trade and other receivables	254	509	(110)	1 804	316	2 773
Cash and bank balances	527	2 477	794	476	(154)	4 120
TOTAL ASSETS	4 281	11 525	5 100	6 629	1 425	28 960
LIABILITIES						
Deferred taxation liabilities	12	60	139	91	17	319
Borrowings and other liabilities	—	767	698	—	66	1 531
Employee-related payables	181	947	328	145	69	1 670
Amounts due to contract customers	1 015	955	528	58	(189)	2 367
Bank overdraft	—	—	—	122	101	223
Trade and other payables	1 168	4 921	861	1 761	339	9 050
Taxation payable	10	86	28	25	61	210
Payables other than contract-related	283	—	—	—	—	283
TOTAL LIABILITIES	2 669	7 736	2 582	2 202	464	15 653

* *Comparatives have been amended as detailed in note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications.*

** *Aveng Steel Fabrication ("ASF"), Aveng Manufacturing Automation & Control Solutions ("A&CS") and Aveng Manufacturing Facades business units are now reported under the Manufacturing and Processing segment, compared to the Construction and Engineering: South Africa and the rest of Africa segment in the prior year. Comparatives have been adjusted.*

4. Segmental report (continued)

The Group operates in five principal geographical areas:

	2014 Revenue Rm	2013 Revenue Rm	2014 Segment assets Rm	2013* Segment assets Rm	2014 Capital expenditure Rm	2013 Capital expenditure Rm
South Africa	**19 489**	19 164	**14 205**	13 564	**794**	750
Rest of Africa including Mauritius	**4 609**	4 984	**2 706**	3 350	**199**	257
Australasia and Asia	**25 001**	24 661	**12 377**	10 768	**225**	327
Southeast Asia	**3 300**	2 544	**1 244**	989	**19**	57
Middle East and other regions	**560**	351	**455**	289	**–**	67
	52 959	51 704	**30 987**	28 960	**1 237**	1 458

** Comparatives have been amended as detailed in note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications.*

5. Investment property, property, plant and equipments and intangible assets

During the year ended 30 June 2014, the Group acquired assets at a cost of R1 237 million (2013: R1 502 million), applied to R384 million (2013: R459 million) in expansions, and R677 million (2013: R925 million) in replacements relating to property, plant and equipment, R176 million (2013: R47 million) in intangible assets and R nil (2013: R71 million) in investment property.

The change in accounting policy on investment property from the cost model to the fair value model resulted in an increase of R15 million (before taxation) in the carrying amount of the property.

Indefinite useful life intangible assets of R15 million were impaired during the current financial year. Refer to *note 6: Impairment of non-financial assets for further details.*

6. Impairment of non-financial assets

As at 30 June 2014, the market capitalisation of the Group was below the carrying amount of its equity, resulting in the identification of a potential indicator of impairment of goodwill and other assets of the Group.

Cash-generating unit ("CGU") impaired: Goodwill and associated indefinite useful life intangible asset

– Aveng Engineering: Goodwill of Aveng Water business unit
– Aveng Grinaker-LTA: Goodwill and associated indefinite useful life asset

- **Aveng Engineering**

The recoverable amount of the Aveng Engineering, CGU which includes the Aveng Water business, does not require impairment on a technical basis. However, this position is premised on the Aveng Water business remaining within Aveng Engineering.

From 1 July 2014, the operating group will be managed by Aveng Grinaker-LTA.

As such the Aveng Water business unit would play a supporting role in securing for example, civil engineering water infrastructure contracts, as opposed to its current market facing position. Consequently, the relocation to another business unit and its ancillary role therein would have a detrimental impact on the R75 million goodwill of the Aveng Water business, especially given the further impairment below. The Group has consequently determined to fully impair the goodwill directly related to Aveng Engineering's Water business amounting to R75 million. No other impairment of the assets of Aveng Engineering is considered necessary.

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6. Impairment of non-financial assets (continued)

- **Aveng Grinaker-LTA**

Given the fact that a verifiable and objective fact pattern supporting the turnaround of Aveng Grinaker-LTA remains largely qualitative in nature, a pragmatic view was adopted relating to the recoverability of the R741 million goodwill and R15 million associated with indefinite useful life intangible assets.

Significant strides have been made in improving the quality of management and processes within the operating group and whilst the net operating loss position has reduced in 2014 along with the recent cash burn rate, a number of legacy issues continue to affect the business, notably within the Mechanical and Electrical business unit. Despite a robust zero-based budgeting and business planning process applied to the CGU, the construction industry remains challenging thereby increasing the range of key assumptions used in the valuation. These factors have the ability to detrimentally impact the recoverable amount assumptions modelled for this operating group.

Based on the sensitivities of the recoverable amount to changes in discount rate and margin assumptions, the Group fully impaired the goodwill directly related to Aveng Grinaker-LTA, amounting to R741 million.

The impairment loss has been included in a separate line item in the statement of comprehensive earnings.

The LTA trademark is considered to have an indefinite useful life given the strength and durability of the trademark and the time it has been in existence. As part of the impairment testing that was performed on the goodwill balance, an impairment of the LTA trademark to the value of R15 million was also effected.

Impairments recognised during the year	**2014 Rm**	2013 Rm
Goodwill	**(816)**	—
Intangible assets	**(15)**	—
	(831)	—

There was no impairment of property, plant and equipment during the current year (2013: R2 million).

7. Deferred taxation

Reconciliation of deferred taxation asset	**2014 Rm**	2013 Rm
At the beginning of the year	**1 347**	998
Transfer from statement of comprehensive earnings – current year	**234**	209
Transfer from statement of comprehensive earnings – prior year	**(97)**	71
Effect of change in foreign tax rate	**(2)**	(1)
Foreign currency translation movement	**49**	66
Reallocation from deferred taxation liability	**33**	(117)
Restructuring	**(161)**	121
	1 403	1 347

Reconciliation of deferred taxation liability	**2014 Rm**	2013 Rm
At the beginning of the year	**(319)**	(299)
Transfer from statement of comprehensive earnings – current year	**(42)**	(33)
Transfer from statement of comprehensive earnings – prior year	**1**	19
Available-for-sale fair value reserve	**(21)**	—
Reallocation from deferred taxation asset	**(33)**	117
Restructuring	**161**	(121)
Foreign currency translation movement	**(4)**	(2)
	(257)	(319)

7. Deferred taxation (continued)

	2014 Rm	2013 Rm
Deferred taxation asset balance at year-end comprises		
Accelerated capital allowances	**(368)**	(338)
Provisions	**577**	498
Contracts*	**(194)**	21
Other	**426**	174
Assessed losses carried forward*	**962**	992
	1 403	1 347
Deferred taxation liability balance at year-end comprises		
Accelerated capital allowances	**(304)**	(384)
Provisions	**20**	16
Contracts	**1**	35
Other	**(3)**	11
Assessed losses carried forward	**29**	3
	(257)	(319)

** In addition an amount of R383 million was reclassified between assessed losses carried forward and contracts. The reclassification had no impact on the net deferred taxation asset balance, net deferred taxation liability balance or earnings.*

Unused taxation losses

The Group's results include a number of legal statutory entities within a number of taxation jurisdictions. The deferred taxation assets cannot be offset against the deferred taxation liabilities, as the Group will not be able to settle taxation on a net basis in most of the different jurisdictions.

As at June 2014, the Group had unused taxation losses of R4 301 million (2013: R3 577 million) available for offset against future profits. A deferred taxation asset has been recognised in respect of R3 691 million (2013: R3 304 million) of such losses. No deferred taxation asset has been recognised in respect of the remaining R610 million (2013: R273 million) due to the uncertainty of future taxable profits in the related specific local entities.

The Group performed a five-year forecast for the financial years 2015 to 2019 which is the key evidence that supports the recognition of the deferred taxation asset. This forecast specifically focused on Aveng (Africa) Proprietary Limited, out of which Aveng Grinaker-LTA operates and which, given its financial performance over the past three years, has contributed significantly to these assessed losses in the Group. Aveng Grinaker-LTA has been repositioned in 2013 and 2014 to strengthen its service offering to clients in its core operations. This process saw new executive leadership progressively appointed during the year. The new management has been tasked with minimising losses and cash outflows on existing contracts, strengthening contract execution and commercial management and to return Aveng Grinaker-LTA to profitability. Fundamental to these initiatives is securing quality contracts that fulfil both risk and return requirements for the Group. Inputs used assumed forecast real revenue growth averages of 3,9% between 2014 and 2019 that are supported by average industry benchmarks. Furthermore, the industry benchmark for average gross margins over the past ten years was approximately 9%. These have been used as key inputs into the five-year forecast for the periods 2015 and beyond.

Also included in Aveng (Africa) Proprietary Limited are Aveng Manufacturing and Aveng Steel operating groups. Aveng Trident Steel will continue to focus on diversifying its revenues and strengthening its profit margins by increasing its branch network in South Africa, increasing value added products and maintaining its focus on operational efficiency improvements. Aveng Manufacturing enters challenging market environments in a strong position in the 2015 financial year. These two operating groups are expected to continue their contribution to earnings and thereby also reduce the extent of assessed losses in Aveng (Africa) Proprietary Limited.

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8. Amounts due from / (to) contract customers

	2014 Rm	2013 Rm
Uncertified claims and variations (underclaims)	**6 763**	4 181
Provision for amounts due from contract customers	**(1 102)**	(1 076)
Progress billings received (overclaims)	**(1 766)**	(1 690)
Uncertified claims and variations less progress billings received	**3 895**	1 415
Contract receivables	**5 527**	6 042
Provision for contract receivables	**(46)**	(64)
Retention receivables	**209**	174
	9 585	7 567
Amounts received in advance	**(911)**	(677)
Net amounts due from contract customers	**8 674**	6 890
Disclosed on the statement of financial position as follows:		
Uncertified claims and variations	**6 763**	4 181
Provision for amounts due from contract customers	**(1 102)**	(1 076)
Contract and retention receivables	**5 736**	6 216
Provision for contract receivables	**(46)**	(64)
Amounts due from contract customers	**11 351**	9 257
Progress billings received	**(1 766)**	(1 690)
Amounts received in advance	**(911)**	(677)
Amounts due to contract customers	**(2 677)**	(2 367)
Net amounts due from contract customers	**8 674**	6 890

9. Cash and bank balances

	2014 Rm	2013 Rm
Cash and bank balances consist of:		
Cash and bank balances	**4 136**	4 120
Less: Bank overdrafts	**—**	(223)
	4 136	3 897
Cash and bank balances at the end of the period include the following cash and bank balances that are restricted from immediate use:		
Group share of cash held by joint operations	**636**	935
	636	935
Off-setting of transactional banking counterparty's balances		
Favourable balance	**1 648**	1 444
Overdraft	**(598)**	(377)
Net balance included in cash and bank balances	**1 050**	1 067

The Group has early-adopted *IAS 32 – Financial instruments: Presentation,* and therefore the Group is offsetting notional bank overdrafts.

10. Non-current assets held-for-sale

During the current year, the Group made a decision to dispose of non-core properties. These have been classified as non-current assets held-for-sale at year-end. These properties will be sold as a single portfolio of land and buildings and therefore meets the definition of a disposal group. When assessed for impairment (as a single portfolio), the fair value as determined by valuation experts substantially exceeds the carrying amount of the properties and therefore no impairment is necessary. The Administration and Eliminations segment houses the disposal group. Refer to *note 4: Segment report*, for more information.

No formal offers from potential buyers were sited by year-end and no agreement is in place regarding the sale of the abovementioned properties. Once the sale is concluded, the intention of management is to lease back these properties. It is unlikely that the lease period will be for the majority of their useful lives. These leases will be classified as operating leases in terms of *IAS 17 – Leases,* and thus the properties will be sold outright.

11. Payables other than contract-related

Reconciliation of payables other than contract-related – 2014

	Opening balance Rm	Reallocated / Recognised Rm	Utilised Rm	Unwinding of discount Rm	Total Rm
Payables other than contract-related	**283**	**—**	**(102)**	**16**	**197**

Reconciliation of payables other than contracted-related – 2013

	Opening balance Rm	Reallocated / Recognised Rm	Utilised Rm	Unwinding of discount Rm	Total Rm
Payables other than contract-related	307	(24)	—	—	283

The Group has proactively engaged and cooperated with the Competition Commission in its investigation into historic anti-competitive practices in the South African construction industry. In June 2013, the Group entered into a settlement agreement with the Competition Commission with respect to the abovementioned investigations, levying an administrative penalty against the Group of R307 million. This represents a full and final settlement of all alleged collusive conduct as defined in the Consent Agreement, confirmed by the Competition Tribunal. During the current year, an amount of R102 million was paid. The remaining balance will be settled over the next two years.

At the date on which these summarised consolidated annual financial statements have been approved, the Group is not aware of any civil damage claims, relating to the Competition Commission Consent agreement that was confirmed by the Competition Commission Tribunal.

12. Taxation

	2014 Rm	2013 Rm
Major components of the taxation expense		
Current		
Local income taxation – current period	**30**	131
Local income taxation – recognised in current taxation for prior periods	**(9)**	(5)
Dividend withholding taxation	**—**	1
Foreign income taxation or withholding taxation – current period	**262**	348
Foreign income taxation or withholding taxation – recognised in current taxation for prior periods	**(28)**	(43)
	255	432
Deferred		
Deferred taxation – current period	**(192)**	(176)
Deferred taxation – foreign rate change	**2**	1
Deferred taxation – arising from prior period adjustments	**96**	(90)
	(94)	(265)
	161	167

The net movement on deferred taxation amounts to R118 million (2013: R329 million), which comprises a credit to the statement of comprehensive earnings of R94 million, a debit of R21 million (2013: R nil) fair value adjustment on available-for-sale investments (R114 million at the CGT rate of 18,7%) and R45 million to the foreign currency translation reserve.

South African income taxation is calculated at 28% (2013: 28%) of the taxable income for the year. Taxation in other jurisdictions is calculated at rates prevailing in the relevant jurisdictions.

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13. Contingent liabilities

Contingent liabilities at the reporting date, not otherwise provided for in the summarised consolidated annual financial statements, arising from:

Performance bonds and guarantees issued in:	2014	2013
– South Africa and the rest of Africa (ZARm)	**8 238**	8 179
– Australasia and Asia (AUDm)	**4 800**	4 580
Other contract claims (ZARm)	**—**	3
South Africa and the rest of Africa		
Guarantees and bonds (ZARm)	**5 150**	5 013
Parent company guarantees (ZARm)	**3 088**	3 166
	8 238	8 179
Australia and Asia		
Guarantees and bonds (AUDm)	**651**	646
Parent company guarantees (AUDm)	**4 149**	3 934
	4 800	4 580

Contract performance guarantees issued by the parent company on behalf of other Group companies are calculated either on the basis of all or part of the contract sum of each respective assignment, depending on the terms of the agreement, without being offset against amounts received as compensation from the customer.

Performance bonds and guarantees issued in Australia includes advance payment guarantees for an amount of AUD142,5 million (R1 429 million), of which AUD30 million (R301 million) was called on 1 July 2014, have been issued by McConnell Dowell to the client on the QCLNG contract. A letter of support has been issued by Aveng Limited indicating continued financial support on the guarantees still outstanding.

Taxation dispute with Zambia Revenue Authority ("ZRA")

A subsidiary of the Group, Moolmans Mining Zambia, is currently in a taxation dispute with the ZRA relating to additional taxation assessments issued to the company by the ZRA. The dispute is currently ongoing. As at 30 June 2014, the outcome of the dispute is still uncertain. Aveng Moolmans has raised sufficient provision in this regard.

14. Events after the reporting period

14.1 QCLNG contract

Included in trade and other payables is an advance payment from McConnell Dowell with regards to a portion of the Queensland Curtis Liquefied Natural Gas ("QCLNG") export gas pipeline contract of AUD142,5 million (R1 429 million) which is backed by bank guarantees. AUD30 million (R301 million) of the advance payment was paid back during July 2014 with the balance due in December 2014. Contingency funding plans are in place should the balance of advance payments have to be paid.

14.2 Convertible bond

Subsequent to 30 June 2014, the Group issued R2 billion senior unsecured convertible bonds with a tenure of five years. The offering forms part of the Group's strategy to manage its liquidity needs, diversify its funding sources and reduce its reliance on bank debt, and to position itself to take advantage of growth opportunities. The main terms of the bonds are:

- Issuer call: From the end of year three, subject to the share price being 130% of the conversion price;
- Coupon 7,25%; and
- Conversion price: 30% on the preference share price (currently R28,76, but will be adjusted downwards due to dividends declared to shareholders and customary bondholder protection clauses).

The Group will list the unsecured senior convertible bonds on the JSE Stock Exchange on 29 August 2014.

The bondholders of the bonds have an option to convert the bonds into fully paid Group ordinary shares. The issue of the ordinary shares required for the conversion is subject to the approval of the shareholders at a special shareholders' meeting scheduled on 19 September 2014.

Consequently, if the approval for the issue of the required additional Group shares is not approved, the bondholders will be settled in cash on maturity or earlier as provided under the terms of the bonds.

The Group intends to use the net proceeds from the offering to repay certain existing debt facilities, extend its debt maturity profile and for general corporate purposes.

15. Related parties

During the period Aveng Limited and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with equity-accounted investments. There have been no significant changes to the nature of related party transactions since 30 June 2013.

There were no related party transactions with directors or entities in which the directors have a material interest.

16. Black economic empowerment ("BEE") transaction

During the 2012 financial year, shareholders approved amendments to the terms of the 2004 BEE transaction which served to extend this structure. The final shares in terms of the amended BEE share transaction were issued on 30 June 2014. This resulted in the issued share capital of the Company increasing by 26 832 834 shares to 416 670 931 shares. Of the 26 832 834 shares issued, 8 586 507 were each allocated to the Community Investment Trust and the Aveng Empowerment Trust, and 9 659 820 to the BEE strategic partner. This concludes the arrangement for the Community Investment Trust and the BEE strategic partner.

Of the total economic benefit of R942 million (as previously reported), R301 million was awarded to employees up to 2013. This was funded by a scrip lending agreement between Investec Private Bank Limited ("Investec") and Aveng Management Company Proprietary Limited, whereby the Aveng Management Company Proprietary Limited lent 8 586 593 Aveng treasury shares to Investec in order to facilitate a loan to be provided to the Aveng Empowerment Trust by Investec. These shares will be returned to the Aveng Management Company Proprietary Limited by Investec at the end of the loan period, being 16 February 2015. The shares allocated to the Aveng Empowerment Trust on 30 June 2014 will be used to discharge its obligation to Investec. The scrip lending shares held by Aveng Management Company Proprietary Limited are regarded as treasury shares for accounting purposes in these summarised consolidated annual financial statements and are therefore eliminated in the Group's results.

17. Disposals of assets

Disposal of non-core assets

The Group embarked on a programme to dispose of non-core assets with the objective of raising at least R2,5 billion. The assets to be disposed of include properties and a business unit to be identified, if and when negotiations are sufficiently advanced.

No formal offers from potential buyers were sited by year-end and no agreement is in place regarding the abovementioned properties.

These steps, together with cash management and turnaround initiatives implemented, will allow the Group to manage its liquidity needs, reduce its level and cost of borrowings and position the business to take advantage of growth opportunities in Africa, Australasia and Asia.

The non-core properties have been classified as non-current assets held-for-sale at year-end. Refer to note 10: Non-current assets held-for-sale. These properties will be sold as a single portfolio of land and buildings and therefore meets the definition of a disposal group.

Unlike the properties the non-core business unit did not meet the reclassification criteria necessary for recognition as a disposal group at 30 June 2014.

Five-year financial review

	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm
Consolidated statement of financial position					
Investment property	**86**	71	–	–	–
Property, plant and equipment	**6 346**	6 789	6 666	6 021	5 146
Goodwill and other intangibles	**984**	1 609	1 549	1 481	1 085
Equity-accounted investments	**306**	144	105	92	117
Available-for-sale investments	**190**	70	146	131	94
Deferred tax assets	**1 403**	1 347	998	1 019	982
Inventories	**2 793**	2 780	2 467	2 066	2 027
Receivables	**14 136**	12 080	9 628	8 132	6 863
Cash and bank balances	**4 136**	4 120	4 852	5 611	7 828
Assets held-for-sale	**607**	–	–	–	–
Total assets	**30 987**	28 960	26 411	24 553	24 142
Deferred tax liabilities	**257**	319	299	832	655
Payables	**14 270**	12 920	11 623	7 751	10 008
Provisions	**197**	283	307	2 761	892
Borrowings and other liabilities	**2 867**	1 531	928	83	170
Bank overdrafts	**–**	600	343	211	197
Total liabilities	**17 591**	15 653	13 500	11 638	11 922
Non-controlling interests	**11**	12	10	(3)	5
Total equity	**13 396**	13 307	12 911	12 915	11 917
Consolidated statement of comprehensive income					
Revenue	**52 959**	51 704	40 886	34 324	33 981
Operating earnings before other gains and losses	**718**	627	504	1 490	2 091
Earnings from available-for-sale investments	**33**	41	37	35	–
Share of (loss) / earnings from equity-accounted investments	**33**	(12)	41	(7)	61
Net operating earnings	**784**	656	582	1 518	2 152
Other gains and losses	**–**	–	31	(14)	(13)
Impairment of non-financial assets	**(831)**	–	–	–	–
Fair value adjustments	**15**	–	–	–	–
Operating earnings after other gains and losses	**(32)**	656	613	1 504	2 139
Finance and transaction expenses	**(319)**	(162)	(76)	(59)	(17)
Finance earnings	**136**	132	189	312	472
Earnings before taxation	**(215)**	626	726	1 757	2 594
Taxation	**(161)**	(167)	(203)	(584)	(722)
Earnings for the period	**(376)**	459	523	1 173	1 872
Other comprehensive earnings for the period:					
Exchange differences on translation of foreign operations	**402**	196	485	209	1
Movement in insurance and other reserves	**65**	(2)	(12)	–	–
Total comprehensive earnings for the period	**91**	653	996	1 382	1 873
Earnings for the year attributable to:					
Equity-holders of Aveng Limited	**(381)**	466	521	1 177	1 873
Non-controlling interests	**5**	(7)	2	(4)	(1)
Earnings for the period	**(376)**	459	523	1 173	1 872
Total comprehensive earnings attributable to:					
Equity-holders of Aveng Limited	**86**	659	993	1 386	1 874
Non-controlling interests	**5**	(6)	3	(4)	(1)
	91	653	996	1 382	1 873
Determination of headline earnings					
Profit for the year attributable to equity holders of Aveng	**(381)**	466	521	1 177	1 873
Headline earnings adjustment	**802**		(26)	14	13
Headline earnings	**421**	466	495	1 191	1 886
Consolidated statement of cash flows					
Cash from operating activities	**(310)**	(285)	971	(175)	1 214
Cash from investing activities	**(1 088)**	(1 244)	(1 871)	(2 000)	(1 175)
Operating free cash flow	**(1 398)**	(1 529)	(900)	(2 175)	39
Cash from financing activities	**1 323**	314	(154)	(55)	(90)
Net decrease in cash and bank balances before foreign exchange movements on cash	**(75)**	(1 215)	(1 054)	(2 230)	(51)

	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm
Share performance (cents per share)					
Headline earnings	**112,5**	124,6	128,1	306,4	483,6
Diluted headline earnings	**104,7**	115,9	119,8	286,6	444,4
Earnings	**(101,9)**	124,6	134,9	302,9	480,3
Diluted earnings	**(94,8)**	115,9	126,1	283,3	441,3
Cash generated by operating activities	**(74,4)**	77,2	365,5	230,0	667,8
Net asset value	**3 344,0**	3 410,4	3 309,6	3 287,0	3 084,5
Dividend	**–**	–	60,0	145,0	145,0
Closing share price	**2 315**	2 990	3 580	3 580	3 445
Returns and productivity					
Net cash position	**1 269**	2 366	3 932	5 317	7 461
CPI (%)	**6,6**	5,5	5,9	3,9	5,7
Current ratio (times)	**1,3**	1,3	1,3	1,5	1,5
Dividend cover (times)	**–**	–	2,1	2,1	3,3
Effective tax rate before impairment (%)	**26,1**	26,7	31,1	32,8	28,3
Margin – gross (%)	**7,2**	6,7	8,5	15,5	16,2
– net operating earnings (%)	**1,5**	1,3	1,5	4,3	6,2
Net interest cover (times)	**(0,2)**	21,9	(3,8)	(5,1)	(4,7)
Property, plant and equipment – expansion capital expenditure	**384**	459,0	1 220,1	1 140,5	925,7
– replacement capital expenditure	**677**	925,0	867,1	677,5	252,8
Operating free cash flow before expansion capital expenditure (Rm)	**(1 014)**	(1 070)	320	(1 035)	965
Headline earnings growth (%)	**(9,7)**	(5,9)	(58,4)	(36,9)	(8,0)
Return on invested capital (%)	**(0,2)**	3,8	3,4	8,2	7,5
Return on equity (%)	**3,1**	3,5	3,8	9,5	16,3
Number of employees at year-end	**31 768**	28 296	33 221	30 900	34 597
Number of shares (million)					
In issue	**416,7**	389,8	389,8	393,0	396,0
Weighted average	**374,0**	373,9	386,0	388,7	390,0
Diluted weighted average	**402,1**	402,1	412,9	415,5	424,4
Stock Exchange performance (cents per share)					
Market value per share					
– at year-end	**2 315**	2 990	3 580	3 580	3 445
– highest	**3 155**	3 740	4 260	4 500	4 700
– lowest	**2 046**	2 569	3 187	3 265	3 280
– volume weighted average price	**2 566**	3 102	3 615	3 812	3 844
Earnings yield (%)	**4,4**	5,4	7,5	11,9	13,0
Dividend yield (%)	**–**	2,0	4,1	4,1	4,2
Market capitalisation at closing prices*	**9 274**	11 656	13 956,2	14 115,0	13 642,0
Price to earnings ratio at year-end	**22,7**	18,5	13,3	8,4	7,7
Value of shares traded	**5 718,4**	7 884,8	9 618,0	12 478,9	23 769,8
Number of shares traded (million)	**222,8**	254,2	266,1	327,3	618,4
Average price per share traded (cents)	**2 587**	3 117	3 603	3 828	3 837
Percentage of market capitalisation traded (%)	**59,3**	67,6	68,9	88,4	174,2
Liquidity (%)	**53,9**	69,5	70,7	86,3	161,8
Weekly rand volume	**108**	162	192	250	474
Rand to AU dollar					
Closing	**10,01**	9,03	8,41	7,28	6,51
Average	**10,03**	9,08	8,01	6,95	6,67
Rand to US dollar					
Closing	**10,68**	9,88	8,21	6,79	7,66
Average	**10,64**	8,84	7,71	7,05	7,62

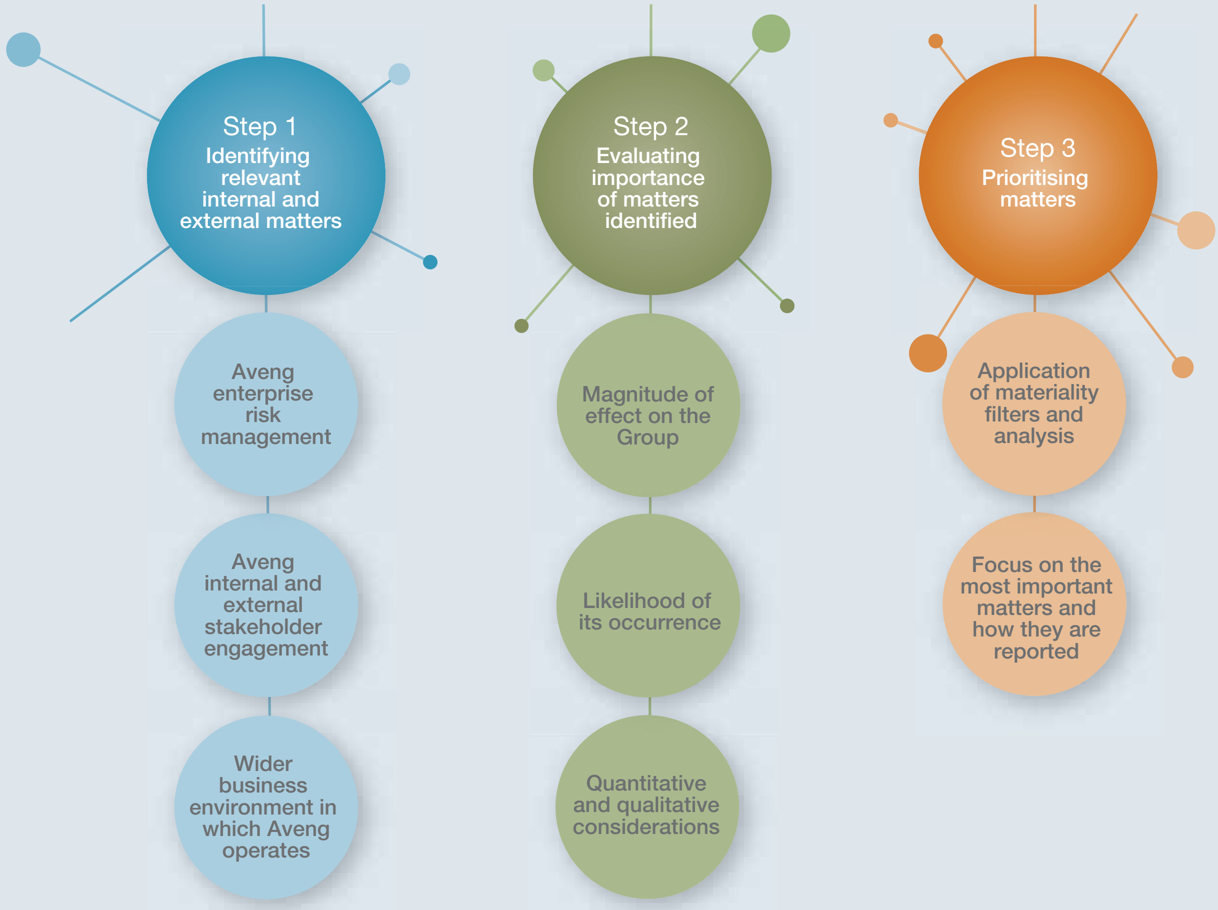
* *Market capitalisation based on shares in issue as at year-end.*

Identifying material issues

Aveng defines materiality of issues for reporting purposes as: issues that substantially affect the Group's ability to create and sustain value[1] over the short, medium and long term.

Material issues determination process

Aveng's material issues determination process, largely informed by the International Integrated Reporting Council (IIRC) guidance, is illustrated below, followed by commentary on each element:



Aveng enterprise risk management

Risk is pervasive in all business activities. Our operational performance and the impact this has on our financial position is a critical risk focal point. Risk is also inherent in the way we manage our resources and relationships, the impact we have on the safety and wellbeing of people, and our impact on the communities and the natural environments within which Aveng operates.

The Aveng Group continuously reviews and improves risk management processes and has recently, among other interventions, adopted the concept of 'three lines of defence' particularly to strengthen assurance obtained at various levels. The three lines of defence jointly form the combined assurance model for Aveng. There is a need to optimally balance the levels of assurance obtained from each line of defence. To this end there is currently a drive to shift assurance levels from the third line to first and second lines in certain areas to enhance ownership of risk and control compliance by management.

[1] *Management's philosophy on value is centred around operating free cash flow generation and return on invested capital generated by the Group as well as the ability to continuously grow and evolve the Group to meet market needs, as manifest in real headline earnings growth.*

Risk management approach

A review of our operations has identified that while we have a sound risk management framework that governs the Group's approach to the assessment and treatment of risk, the actual management of risk at the operational level has not been totally successful leading to a sub-optimal outcome in operational performance.

The adoption of a three lines of defence model of risk management with clearly defined roles and responsibilities to identify, evaluate and manage opportunities, threats and uncertainties that could influence the Group's results, ensures both regulatory compliance as well as compliance with group policies.

- As the *first line of defence,* operational management has ownership, responsibility and accountability for assessing, controlling, and mitigating risks together with maintaining effective internal controls to identify risks and ensure accurate financial reporting. This includes preparing documented project execution strategies, conducting rigorous management reviews of bids before submission, approving key project level appointments, conducting regular senior management reviews of ongoing projects, assuring adequate software systems to facilitate timeous project level reporting and identification of deviations from plan.
- As the *second line of defence,* the commercial and risk management functions monitor the effectiveness of the operating model and implementation of effective risk management practices by operational management. This assists the risk owners in reporting adequate risk-related information up and down the organisation and facilitates risk management processes and detailed peer reviews on key contracts when they are approximately 20% complete to identify risks and opportunities and agree improvement strategies. In addition, regulatory compliance is monitored and guidance provided on compliance requirements.
- As the *third line of defence,* the internal auditing function, through a risk-based approach, provides assurance on the effectiveness of governance, risk management, and internal control to the committees of the Board, supplemented by the external audit function which independently verifies the accuracy of financial results and certain non-financial data.

Governance structure

The Board's risk committee and audit committee act as the governing bodies for the combined assurance model.

- The risk committee oversees the activities of all three lines of defence and receives reports from the third line of defence on the efficacy of management controls. The risk committee also satisfies itself through the activities of the tender risk committee that adequate business processes are followed in the preparation of major bids and that the risks have been considered and quantified. The tender risk committee also monitors significant deviations from planned outcomes on material projects.
- The audit committee oversees the activities of the external and internal audit functions and receives input on the adequacy and accuracy of financial reporting and control mechanisms. It relies on the input of the risk committee on material risk issues that could impact the financial results.
- The tender risk committee reviews all major bids before submission to satisfy itself that appropriate business processes have been followed to prepare the bid and that risks have been considered. Particular attention is paid to the key commercial terms. A mandate is given to the relevant operating group specifying the terms under which a contract may be accepted.
- The risk committee reviews major and problematic projects quarterly. Concerns raised by the committee are communicated to the relevant operating groups for management actions. In addition, the tender risk committee will conduct a high-level monthly review of major and underperforming projects, with specific focus on changes in costs, commercial claims, margins and any other items of concern that occurred since the prior reporting period. Peer reviews and 'breaking news' on underperforming contracts are brought to the attention of the tender risk committee.

Additional information about the functioning of these structures is available in the corporate governance report on pages 92 to 101, or the full corporate governance report online

www.financialresults.co.za/2014/aveng-integrated-report-2014/corporate-governance.

About the integrated report
Organisational overview and business model
Salient features
Group performance review and outlook
Material issues
Strategy
Operational review
Corporate governance
Remuneration
Shareholder information and administration

Material issues determination process continued

Key business risks
Key business risks are identified as internal or external risks that have the potential to cause significant financial loss, to fundamentally undermine the Group's competitive position and to adversely impact its reputation. A risk register is updated quarterly and reported to the Board and the risk committee. This information is used to determine the strategic interventions and mitigation measures required to minimise the impact of risks.

The top business risks emerging from enterprise risk management (ERM) for the period were as follows and closely correlate to the material issues determined for the Group as a whole:
- Cash flow, liquidity and profitability
- Project execution
- Safety
- Work on hand and growth
- B-BBEE and transformation (South African operations)
- Employee performance and succession
- Labour unrest (South African operations)
- Problem contracts in McConnell Dowell (Australian operations)
- Aveng Grinaker-LTA performance (South African operations)
- Reputation

Stakeholder engagement
Aveng recognises that a proactive and robust process of engagement with stakeholders is critical in understanding their views and concerns. The ability to effectively identify material issues relating to stakeholders, including risks and opportunities, and effectively respond to these issues will enable us to create and maintain value.

The recent Competition Commission investigation and settlement process has negatively impacted the Aveng Group's reputation with a number of key stakeholders. An intensive process is being undertaken to engage with affected stakeholders to re-establish and build relationships and reputation.

The Group's recent poor financial performance has also negatively impacted our reputation with investors and financiers. Our drive for clear communication and transparency of our strategic response to stabilise, turn around and grow the Group will be core to rebuilding our reputation as a business with exceptional potential and a management team that can deliver on its commitments. Notwithstanding these, and other challenges, there has been an underlying improvement in the performances of many operations that underperformed in 2013, reflecting Aveng's commitment to deliver tangible and sustainable improvements in its results.

Our primary stakeholders are employees, shareholders, the investment community and media, trade unions, customers and clients, subcontractors, suppliers, service providers and business partners, and government, regulatory and industry bodies. We encourage dialogue and feedback at all levels in the business.

During the year under review, a stakeholder engagement plan and report-back process was implemented in which operating groups identified their material stakeholders based on their current or prospective positive or negative impact on the business. Specific focus is paid to how we engage with each stakeholder and how to elevate the engagement to the next level to build stronger relationships.

The table below sets out existing methods of engagement with our key stakeholders:

Stakeholders	Nature of engagement
Customers and clients Private and public across all sectors covered in the group business model. Refer to pages 6 to 12.	Customer meetings and site visits, conferences, events and exhibitions, written communication, contracts and service level agreements
Employees	Culture surveys and wellness days, engagement forums and training sessions, safety inspections, performance reviews, leadership conferences and senior management interaction
Shareholders SA-based (72%), North America and Canada-based (16%), Europe-based (9%)	Financial reports, trading updates and statements, results presentations and roadshows, AGMs, site visits, webcast sessions, individual meetings and the website
Investment community and media Lenders, analysts, media	Financial reports, trading updates and statements, results presentations and roadshows, AGMs, site visits, webcast sessions, the website, corporate newsletters and conferences
Trade unions NUM, NUMSA, UASA, Solidarity	Each operating group has its own agreements with its respective trade unions and engages through various methods and at various intervals
Contractors, suppliers, service providers and business partners	Supplier meetings, workshops, presentations, industry body meetings, events and exhibitions, project steering committees, site and project visits, contracts and service agreements, project process meetings
Government and regulatory bodies National, provincial and local government, parastatals, CIDB, Competition Commission, Construction Sector Charter Council, JSE	Submission of compliance reports, formal and informal meetings, consultations and workshops (e.g. SAFCEC-led industry CEO forum), conferences, seminars and presentations, and written communications
Industry SAFCEC, MBSA, SEIFSA, Business Against Crime	Representation on key industry bodies, leadership meetings, correspondence, newsletters and sponsorships.

Stakeholder concerns and their apparent impact on Aveng have been plotted on the matrix below. Material issues (those plotted on the top right of the matrix) are regarded as having the potential to significantly impact the Group in achieving its strategic objectives.

The stakeholder materiality matrix

Concern to stakeholders \ Impact on Aveng	Low	Medium	High
High	— Increasing unemployment — Engagement on safety, health and wellness and environmental issues	— Delivering sustainable returns	— Management of working capital and liquidity — Quality of execution of projects — Macro-economic environment — Securing quality work — Transformation in South Africa — Labour instability and costs — Stakeholder relationships and ethical business practices
Medium	— Opportunities for practical training	— Capital allocation — Regular face-to-face communication between staff and managers — Wage levels	— Risk policies — Capacity and capability to deliver — Performance and change management — On-time delivery
Low	— Sustainability of CSI investment	— Application of policies — Supporting key community development	— Reliability of utility supply — Enterprise development

Business environment

The business model on pages 6 to 12 provides context for the issues apparent in the environment in which Aveng operates.

As outlined in the business model section, the Aveng risk management and material issues determination process seeks to assimilate the current status and trends of our external environment to ensure that appropriate strategic responses and controls are put in place by the Group.

Material issues

Following the material issues determination process outlined previously, involving enterprise risk management, stakeholder engagement and business environment analysis, Aveng's material issues in order of prioritisation are presented in the table below:

	Material issue	Context	Timing of expected impact on Aveng
1	*Management of working capital and liquidity*	— Operational underperformance in certain areas and weak financial performance relative to industry peers may negatively affect the Group's reputation and ability to secure quality work. — Increasing size of major projects and complexity of commercial terms may increase risk. — Exposure to refinancing and liquidity risk has the potential to impact credit ratings and ability to raise cost-effective borrowings.	Short term
2	*Quality of execution of projects*	— Limited availability of experienced management weakens project execution and risk and commercial management on major projects, resulting in ineffective execution of strategy in certain parts of the business. — Inadequate project execution systems or non-adherence to systems and processes resulting in unexpected substantial loss provisions on a number of contracts. — Limited sharing of knowledge and learning from mistakes contributes to areas of weakness in operational performance. — Poor health and safety performance weakens productivity and may attract regulatory sanction.	Short term
3	*Macro-economic environment*	— Subdued outlook in South Africa due to delays in infrastructure and mining investment. Rail, water infrastructure and renewable energy markets offer better prospects. — Sub-Saharan African growth prospects remain strong, particularly in the transport (rail, road and ports), power, oil and gas and mining markets. — Australian growth prospects remain positive, despite the slowdown in mining, with significant potential in oil and gas and infrastructure. — Asia and Middle East markets represent significant growth potential, with infrastructure investment continuing to fuel growth in Southeast Asia. — Exposure to economic impacts across different geographies (foreign exchange and commodity price fluctuations, regulatory and political environments).	Short term, Medium term, Long term
4	*Securing quality work*	— Increased size and complexity of major infrastructure projects results in higher levels of risk being transferred to contractors, particularly in economic downturns when competitive pressures increase. — Entry of international contractors in African market has increased competition. — Need for significant local content (labour and fabrication) in all markets complicates entry and execution. — Uncertainty about cost base complicates pricing of projects. — Poor health and safety performance may negatively impact prospects for future work. — Vigilance required when exposed to questionable business practices.	Medium term, Long term

Short term: 0 – 2 years *Medium term: 2 – 5 years* *Long term: 5 – 10 years*

Material issue		Context	Timing of expected impact on Aveng
5	*Transformation in South Africa*	— Application of new B-BBEE Codes may impact the Group's transformation rating. — Significant investment required to develop empowered supply chain in South Africa. — Educational and construction experiential demographics do not adequately fulfil the Group's skills and experience requirements. — Similar localisation pressures in geographic locations other than South Africa.	Short term; Medium term
6	*Labour instability and costs*	— Current unstable domestic labour market provides a substantial risk. — Violent nature and extended duration of strikes compound their impact. — Labour disruption impacts contractors indirectly even if own labour force is not on strike.	Short term; Medium term
7	*Stakeholder relationships and ethical business practices*	— A number of problem contracts experienced in South Africa and Australia during the past two years have resulted in protracted commercial negotiations with clients. — Construction sector remains exposed to the potential of ongoing punitive actions for historic anti-competitive practices.	Short term

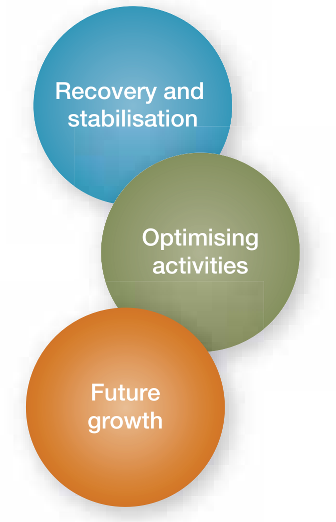
Short term: 0 – 2 years *Medium term: 2 – 5 years*

Strategy

Group review and clarified strategy

The current operating environment and underperformance of the Aveng Group has necessitated a review of the strategy and business model of the Group. The review process was undertaken at corporate and operating group levels to ensure that a thorough and intensive approach was adopted.

The clarified strategy is being viewed over a short, medium and long term horizon. The short term is a recovery and stabilisation phase in which Aveng is focused on the Group's immediate turnaround. The second phase will focus on optimising the activities of Aveng to ensure its delivery of strong returns to shareholders and the third phase will focus on the future growth of Aveng. While some of the elements of this strategy are already being implemented, others are in the process of being formulated on a continuous basis.



A responsive strategy

The clarified strategy seeks to robustly and proactively respond to the material issues facing the Group in the short, medium and long term. The following table demonstrates the responsiveness of the strategy to the material issues identified as well as the operations to which the initiatives are most pertinent:

Material issue	Recovery and stabilisation	Optimise activities and future growth	Focus areas for	Dealt with in
Management of working capital and liquidity	— Performance management — Cash management — Cost management	Project delivery models and execution capabilities	Group as a whole	Financial director's review
Quality of execution of projects	— Performance management — Skills development — Culture management	Project delivery models and execution capabilities	— Construction and Engineering — Mining	— Chief executive officer's review — Construction and engineering and Mining operational reports
Macro-economic environment	— Risk management — Strategy execution — Cost management	— Geographic and sector reviews — Africa strategy	Group as a whole	— Chairman's statement — Chief executive officer's review
Securing quality work	— Portfolio revision — Risk management — Strategy execution	— Geographic and sector reviews — Africa strategy	— Construction and Engineering — Mining	— Chief executive officer's review — Construction and Engineering and Mining operational reports
Transformation in South Africa	— Skills development — Attract HDI professionals	— Enabling culture — Enactment of clear plans	South African operations	— Chairman's statement — Chief executive officer's review
Labour instability and costs	— Employee engagement — Effective communication	— People — Relationship management	South African operations	— Chairman's statement — Chief executive officer's review — Financial director's review — Construction and Engineering – Aveng Grinaker-LTA; Mining and Manufacturing and Processing operating segment reports
Stakeholder relationships and ethical business practices	— Communication — Culture management — Brand positioning	Relationship management	Group as a whole	— Chairman's statement — Chief executive officer's review — Stakeholder engagement

Strategic initiatives and progress made in the current year have been dealt with in the reviews of the chief executive officer and group financial director as well as the operating segment reviews.

Recovery and stabilisation

The key strategic objectives in the recovery and stabilisation phase include:

- Resolution and optimal settlement of legacy project claims
- Realigning the order book mix and risk profile to optimal and chosen sector and geography portfolios
- Incrementally improving liquidity through improved cash flow to adequately service borrowings and provide growth capital and dividend returns to shareholders
- Actively realigning fixed overhead costs to activity levels and business model
- Setting acceptable return parameters for each business and monitoring ability to sustainably deliver in the short to medium term
- Focus on growing from the strong operating base of McConnell Dowell in Australia and Southeast Asia
- Pursuing a selective presence in the rest of Africa and the Middle East.

The eight work streams that will be the primary focus areas and enablers for management in the short term recovery and stabilisation phase are set out and explained below:

Work stream	Objectives	Key activities
Cash management	Strengthen Aveng's financial and cash position	– Short term measures: active management of supplier and customer accounts, including claims recovery – Medium term: address operating group's specific cash issues, ensure that each operating group targets positive operating free cash flow and prepare operating group plans for the recovery of claims – Long term: address underlying reasons for underperformance so as to improve profitability and cash generation
Risk management	Instil and improve risk management as a business imperative across the Group	– Ensure risk guidelines are easily understood – Define risk tolerances at operating group level – Streamline current tender risk process – Improve risk management culture and awareness across the Group – Enhance the 'three lines of defence'
Cost management	Achieve annual sustainable cost reduction particularly from fixed overhead costs	– Set operating group baseline and targets – Classify savings initiatives into short, medium and long term – Execute rightsizing exercise – Execute medium and long term plans
Strategy execution	Complete the reorganisation of Aveng	– Confirm the Aveng vision and strategy – Articulate business model and clear roles and responsibilities at all levels of the Group – Confirm Aveng portfolio mix including focus sectors and geographies – Execute reorganisation of the Group and operating groups to fit new portfolio – Set metrics / tools to assess progress
Skills development	— Improve skills throughout the Aveng Group within the next 12 months — Improve management stability	– Evaluate skill levels per operating group – Develop and implement action plan per operating group to close skills gaps – Adapt the reward system, where required, to close skills pipeline gap – Combine skills / transformation plan per operating group / business unit

Strategy continued

Work stream	Objectives	Key activities
Culture management	Instil a revitalised Aveng DNA culture across the Group	– Communicate the vision and strategy of Aveng – Analyse the latest culture survey to set a baseline – Develop and implement plans to embed the DNA – Operating group / business unit managing directors to personally communicate the vision to all employees
Communication	Ensure clear communication across all internal and external stakeholders	– Translate group vision; communicate to business units – Conduct staff culture surveys – Quarterly operating group sessions to encourage information sharing – Implement client relationship management on projects
Performance management	Ensure that there are no underperforming business units or projects	– Implement performance contracts at all levels of the Group – Drive a culture of performance / consequence management – Implement performance management systems to conduct reviews of underperforming BUs and contracts – Put in place realistic recovery plans.

The execution of the eight work streams will be driven at a corporate and operating group level and will lay the foundation leading into the second and third phases of the strategy, namely, optimisation and growth.

Outlook and focus areas

The outlook and focus for the Group in the short term is to drive its strategic initiatives through the work streams in response to the short-term material issues. Simultaneously optimisation and growth initiatives will be implemented on the foundation of the recovery and stabilisation phase.

The future strategic direction of the Group is being formulated on a continuous basis and some of the key focus areas and initiatives going forward have been summarised below.

Business model and corporate office focus areas

Aveng will maintain a more focused, centre-led business model but with clearer accountability and role clarity. The business model will be:

- A strong centre (corporate office) focusing on strategic guidance and direction through close involvement in the underlying businesses and ensuring strong governance, compliance and ethical business conduct
- Operating groups and business units that focus on operational execution of the individual strategies in alignment and support of group objectives, with clearly defined accountability.

There is a clear understanding of the broad business model, but there has been a lack of clarity on many operating issues which resulted in uncertainty around responsibilities and accountabilities, and the duplication of work.

An optimisation exercise has been embarked upon to achieve a leaner, more efficient organisation, to eliminate duplication of roles and to ensure role clarity across the Group.

The business model is now clear: the corporate office controls capital allocation, portfolio and geographic decisions, financial objectives and acquisitions and disposals.

Operating group focus areas

- Growth and increased investment in McConnell Dowell and selected Aveng Manufacturing businesses
- Review of the funding and operational model of Aveng Mining Moolmans
- Turnaround of performance at Aveng Grinaker-LTA, Aveng Steel and Aveng Mining Shafts & Underground and close review of progress over the next year
- Resolve legacy contractual matters at Aveng Engineering and reconfigure business as a support partner to the primary construction and infrastructure development business.

Project delivery models and execution capabilities

Aveng recognises the need to focus on attaining excellence in its project delivery models and execution capabilities and is developing the following initiatives in support of this:

- Testing group project execution and standards against industry best practice and ensuring that lessons learnt on existing projects are carried forward to new projects
- Ensuring that Aveng project management philosophy is applied consistently throughout the Group.

Geographic and sector reviews

Geographies

Aveng will increase the geographic spread of its portfolio, with a focus on selected regions in Africa (outside South Africa), Australia, Southeast Asia and the Middle East, while retaining its market share in South Africa.

Customer segmentation

Aveng's customer base is largely a function of its broad geographical footprint as well as diverse business and product portfolio. Although customer selection and focus happens largely at operating group level, the Group's focus on customers will be to reduce concentration risk, increase non-public construction activities (outside South Africa) and pursue alternatives to vulnerable or exposed areas of the business.

Transformation in South Africa

Aveng recognises that transformation is a business imperative in South Africa. The Board through the social, ethics and transformation committee oversees the transformation strategy and plans at both an Aveng (Africa) Proprietary Limited and operating group level.

The 2013 / 2014 B-BBEE contributor status will be reviewed against the Construction Charter targets under the existing B-BBEE Codes. It is expected that the 2013 / 2014 contributor status will at least remain at a level 3 but it is anticipated that it could improve to a level 2 with the next verification cycle on 30 June 2014, subject to final measurement and verification. However, the Board is cognisant of the impact of the new DTI B-BBEE Codes of Good Practice to be read in conjunction with employment equity targets set by the Department of Labour and the specific requirements of the Mining Charter with regard to work performed in this sector.

With the business imperative objectives of transformation and the relevant codes, charters and targets in mind, a three-year transformation plan with relevant KPIs and targets will be developed with focus on the following three priority elements:

— Ownership structure
— Human capital value chain
— Supply chain.

During the 2012 financial year, shareholders approved amendments to the terms of the 2004 BEE transaction which served to extend this structure. The final shares in terms of the amended BEE share transaction were issued on 30 June 2014. This resulted in the issued share capital of the Company increasing by 26 832 834 shares to 416 670 931 shares. Of the 26 832 834 shares issued, 8 586 507 were allocated each to the Community Investment Trust and the Aveng Empowerment Trust, and 9 659 820 to the BEE strategic partner.

Additional information is available in the online transformation report at www.financialresults.co.za/2014/aveng-integrated-report-2014/sustainability.

Africa strategy

The formulation of a clear Africa strategy remains a high priority, with specific underlying plans for the operating groups.

— Aveng Grinaker-LTA is developing its Africa expansion plans with growth potential in Mozambique and Namibia as well as platforms for expansion into East Africa
— Aveng Manufacturing has made progress in identifying and pursuing certain growth opportunities in Africa
— Aveng Moolmans is focused on regaining its market leading position in Africa, following the completion of contracts in Tanzania, Guinea and Ghana.

People

The successful implementation of the Group's strategy is dependent on continuous improvement in the quality of management and staff which is being addressed by ongoing human resource initiatives, including:

— Increases in the succession pipeline
— Improvement in management stability and key skills retention
— Development plans to ensure identified successors address transformation objectives
— Integration of succession planning, talent management and transformation programmes.

Stakeholder relationship management

The relationships Aveng has with its key stakeholders fundamentally affect its capacity to conduct business profitably and sustainably. Initiatives are underway to restore the trust of stakeholders by engaging with them and re-establishing the Group's positive reputation. There are various ways in which the Group communicates with stakeholders and responds to them. Best practices from across the Group are being adopted to ensure Aveng strengthens stakeholder relationships at all levels.

Vision

During the strategic realignment of Aveng, a renewed vision statement was developed to guide the Group in achieving its purpose as a sustainable leader in the delivery of infrastructure as well as related products and mining services. The Aveng Group aims to own and operate a portfolio of infrastructure, mining and manufacturing-related businesses, each of which will achieve top quartile performance compared to its peers when measured against return on invested capital, earnings growth, and positive cash flow generation through the business cycle.

Aveng will apply a set of financial benchmarks to ensure that the Group and each operating group meets the required performance objectives through the cycle, achieving competitive financial returns for shareholders. These performance targets for the medium to long term have been agreed by the Board as follows:

— Headline earnings growth	Real 8%
— Return on invested capital (ROIC)	Minimum of 15%
— Operating free cash flow before expansion capital expenditure	Positive throughout cycle

Management's philosophy on value is centred around operating free cash flow generation and return on invested capital generated by the Group, as well as the ability to continuously grow and evolve the Group to meet market needs, as manifest in real headline earnings growth.

While this philosophy seems to be centred on financial returns, there is clear cognisance of the need for a robust integrated long-term strategy that focuses on sustainability and effective utilisation of capital through an optimised business model to ultimately achieve the value generation capability of Aveng.

Executive directors and key management

Kobus Verster (48)
Chief Executive Officer
24 years' industry and related experience.
Four years with Aveng.

Hercu Aucamp (46)
Managing Director of Aveng Steel
25 years' industry and related experience.
Three years with Aveng.

Chris Botha (42)
Managing Director of Aveng Grinaker-LTA
21 years' industry and related experience.
Joined Aveng in January 2014.

Pieter du Plessis (55)
Acting Group Commercial Executive
25 years' industry experience.
Three years with Aveng.

Solly Letsoalo (52)
Managing Director of Aveng Manufacturing
29 years' industry and related experience.
Five years with Aveng.

Juba Mashaba (48)
Group Executive Director
19 years' industry and related experience.
Seven years with Aveng.

Adrian Macartney (46)
Group Financial Director
20 years' industry and related experience.
Joined Aveng on 8 September 2014.

Michelle Nana (46)
Company Secretary
12 years' industry and related experience.
Two years with Aveng.

David Robinson (60)
Managing Director of McConnell Dowell Corporation Limited
37 years' industry and related experience.
35 years with Aveng.

Stuart White (50)
Managing Director of Aveng Moolmans
33 years' industry and related experience.
33 years with Aveng.

Brian Wilmot (60)
Acting Managing Director of Aveng Mining Shafts & Underground
41 years' industry and related experience.
41 years with Aveng.

Details correct as at 22 September 2014

Construction and Engineering: Australasia and Asia

Financial highlights

	2014 Rm	2013 Rm	Variance (%)
Gross revenue	28 169	26 749	5
Gross earnings	1 575	1 831	(14)
Net operating earnings	271	639	(58)
Capital expenditure	243	384	(37)
Total assets	13 340	11 525	16
Total liabilities	8 623	7 736	11

Hume Dam, New South Wales, Australia

McConnell Dowell is a major engineering, construction and maintenance contractor experienced in delivering complex projects in the building, infrastructure and resources industry sectors in Australia, New Zealand and Pacific Islands, Asia and the Middle East.

59%
Contribution to Aveng's two-year project order book

5%
Growth in revenue to R28,2 billion

David Robinson Managing Director

McConnell Dowell operations

Sectors served

Infrastructure	Mining	Power	Water	Oil and Gas	Industrial
Commercial	Retail	Concessions	Pipelines	Transport	Renewable energy

Construction and Engineering: Australasia and Asia continued

109%

increase in earnings from Overseas operations

70%

employee satisfaction score

McConnell Dowell is geographically structured into Australian and Overseas operations, with specialist services in tunnelling and pipelines. Built Environs is the commercial building arm of McConnell Dowell. Separately branded Electrix operates in the construction, maintenance and asset inspection parts of high-voltage electrical transmission and distribution systems, generation and electrical substations, as well as gas distribution networks.

McConnell Dowell operated in challenging market conditions during the 2014 financial year, with declining opportunities in its core sectors and increasingly demanding commercial conditions resulting in higher levels of risk. Major contracts contributed to ongoing revenue growth but earnings were materially impacted by losses incurred on the Gold Coast Rapid Transit (GCRT) contract in Australia which was substantially completed during the year.

McConnell Dowell's geographic spread and sector diversity mitigated the impact of the economic downturn to a certain degree, but the business has found it necessary to strengthen its focus on project execution, claims recovery and securing new work at acceptable risks and margins. A number of interventions were implemented during the year under review to improve operational and commercial management of major projects. These actions are discussed in more detail under key focus areas on page 68.

Operational performance

Revenue growth of 2% to R9,4 billion in the **Australian operations** was driven mainly by marine projects at Hay Point in Queensland and Port Hedland in Western Australia. McConnell Dowell worked collaboratively with the engineer, procure, construct and manage (EPCM) contractor to continue with construction of the Hay Point Berth contract, including the mechanical, electrical and instrumentation works. Inclement weather during the first half of the year resulted in delays in the project. Completion of the works is expected in the first half of the 2015 financial year.

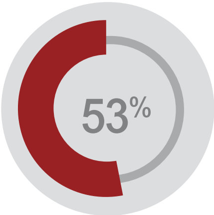
The Australian order book remains strong, reflecting new contracts awarded during the year particularly in the marine, civil and rail sectors. The decision in 2013 to focus on transport infrastructure in order to mitigate the slowing of investment in major resources infrastructure resulted in the award of a major roads project in New South Wales and the operation's first road and rail underpass contract in Western Australia. The focus on road and rail transport infrastructure will continue across all Australian states in 2015 and ongoing opportunities in the coal seam methane gas industry are being explored in Queensland.

The **Overseas operations** performed well in competitive market conditions, achieving strong profit growth, in spite of a marginal decline in revenue to R3,6 billion, and excellent project execution in most areas. In New Zealand, the Te Mihi geothermal power plant was commissioned and handed over and work continued on the Christchurch and Waterview Alliance projects. In Southeast Asia, the Jurong Aromatics and Holcim Tuban and Vale Jetty contracts were completed. New marine works were awarded in Singapore and Indonesia and industrial projects in Malaysia. The Middle East operation continued work on projects in Abu Dhabi, Saudi Arabia and Qatar.

Despite several notable contract awards and a robust opportunity pipeline, new work is strongly contested. The operation continues to seek new technology and refinements in its operating methods to generate a competitive advantage in its targeted oil and gas, mining and minerals, and industrial market sectors.

The **Pipelines** business unit reported an 11% decline in revenue to R7,1 billion as the large liquefied natural gas pipeline contracts in Queensland progressed towards completion. Construction work on the Australia Pacific Liquid Natural Gas (APLNG) contract was completed in June 2014 and work on the Gladstone Liquid Natural Gas (GLNG) process hub at Roma continued. Commercial close-out for these two projects is expected in the first quarter of the 2015 financial year. The Komo Airport contract in Papua New Guinea was completed and a good commercial outcome was achieved.

The Queensland Curtis Liquefied Natural Gas Pipeline (QCLNG) contract achieved substantial completion on 30 November 2013, with first gas transported in December 2013. Non-contribution by QCLNG impacted heavily on the business unit's profit margin. Although the key project milestones were successfully met and milestone completion incentives were earned and received, the commercial claims process remains a material risk to earnings. Significant executive effort is being applied to recover losses on this contract. In December 2013,



McConnell Dowell contribution to the Aveng Group's revenue

McConnell Dowell will continue to focus on its core competencies and current geographic footprint. The Southeast Asia and Middle East markets represent important growth potential.

the QCLNG joint venture was unsuccessful in the first part of the commercial claims under the expedited dispute arbitration board structure. Leave to appeal this outcome, as announced on 21 July 2014, was unsuccessful. The second arbitration case is to be managed according to the International Chamber of Commerce (ICC) rules rather than the expedited dispute arbitration board structure applied in the first part of the arbitration process. The statement of claims was submitted on 23 July 2014 and the arbitration case is only likely to be heard by the end of the 2015 financial year. Claims contained in the second arbitration are considerably larger in both number and monetary value than those to which the initial arbitration award applied. The parties involved are intent on expediting the arbitration process.

The Pipelines business unit enters the new financial year with a healthy portfolio of opportunities within the oil and gas sector in Australia, Southeast Asia and the Middle East.

The **Tunnelling** operation reported a significant increase in revenue to R1,8 billion. The operational team continued to focus on strengthening execution performance. The DTL2 C917A contract was secured in Singapore during the year, continuing the long-term relationship with the Land Transit Authority. Work on the DTL2 C916 contract is scheduled for completion in June 2015 and C917 in January 2016. Demonstrated expertise in this contract places McConnell Dowell in a strong position to capitalise on future infrastructure transport projects across Australia, Singapore and New Zealand.

In New Zealand, the massive 3 500 tonne, 14,5 metre diameter tunnel boring machine for the R12,2 billion Waterview project was successfully assembled, commissioned and launched, and is now over halfway along the first tunnel where tunnelling is expected to be completed by September 2014.

The revenue of **Built Environs** increased as work continued on the Perth Airport Terminal 1 expansion and the Ocean Keys Shopping Centre expansion which are the business unit's two largest projects in Western Australia. Built Environs also continued with work on a major retail fit-out for a leading international retailer's flagship store in Adelaide. With the multi-staged Parks Community Centre project nearing completion, Built Environs completed two retail projects in Adelaide: the Myer Centre Adelaide Upgrade and the Centro Arndale Upgrade, and successfully delivered the Australian Submarine Corporation Maintenance Support Towers project. In Queensland, Built Environs completed its scope of works on the Gold Coast Rapid Transit (GCRT) public private partnership project and is assisting McConnell Dowell with building works on the Brisbane Flood Recovery and Milton Ferry Terminal project.

The GCRT, which involves the design, construction and delivery of a 13 kilometre light rail corridor along Australia's Gold Coast is the first of its kind in the State of Queensland and is listed as one of the world's top 100 infrastructure projects. The contract incurred significant losses as a result of design issues, and access, service and weather-related delays during the first half of the financial year, and cost inflation during the second half. The GCRT project achieved practical completion with technical handover to the client occurring in July 2014 and remedial works underway. Additional cash outflow exposure on this contract is reducing but its cost to completion significantly exceeded budget due to complex design and scope amendments, along with the impact of delay events and acceleration requirements. This resulted in a substantial loss being recognised in the financial year along with a significant increase in uncertified revenue.

The **Electrix** business unit continued to perform well as reflected in its delivery of another year of strong growth. Profits grew on 32% growth in revenue to R3,4 billion.

The New Zealand business had another steady year of performance with the electricity and gas contracts delivering solid results. Work volumes for the distribution business are projected to grow and the transmission business remains in a sound position going forward. The commercial business is benefiting from the Christchurch earthquake rebuild. Securing the Kiwi Rail

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Construction and Engineering: Australasia and Asia continued

North Regional Traction Maintenance contract positions the business to expand further in the transport sector.

Electrix Australia continues to grow as a result of strong performances in all regional operations. Renewed term maintenance contracts with major utility customers are now in place, with acceptable contributions being made through projects with McConnell Dowell and other industrial clients. The gas sector business has gained momentum with contracts secured with the Australian Power Authority in both Victoria and South Australia. Expansion into the transport sector, in particular rail, is seen as a growth opportunity. Electrix has a solid level of work on hand and a number of excellent prospects to provide further diversification and growth.

Key focus areas

Financial performance

McConnell Dowell's total revenue increased by 5% to R28,2 billion reflecting the completion of a number of major contracts, notably GCRT, Hay Point Berth, APLNG and QCLNG. Non-Australian operations contributed an increased 26% to revenue.

The operating segment's earnings were materially impacted by losses incurred on the GCRT project, while overseas operations and Electrix performed well. Net operating earnings of R271 million were significantly below the R639 million achieved in the 2013 financial year.

QCLNG was substantially completed in December 2013 and GCRT achieved practical completion in July 2014 but both remain materially significant commercial risks until associated claims are resolved. Uncertified revenue for McConnell Dowell is R4,5 billion (2013: R2,7 billion) including smaller outstanding claims associated with the Perth Airport, Port Botany and APLNG contracts. A significant insurance claim related to the Adelaide Desalination Plant contract which was completed in 2013, was successfully resolved and paid in June 2014.

The QCLNG claims will continue to progress through the ICC rules arbitration process unless an earlier settlement is reached. McConnell Dowell received funding advances from the client of AUD142,5 million (R1 429 million). AUD30 million (R301 million) of the advance payment was paid back during July 2014, with the balance due in December 2014.

Appropriate substantiation has been performed by management regarding the assertions underpinning the recognition of GCRT's uncertified revenue position. The process of claim finalisation and resolution with the affected counterparties will be intensified. Given the technical and legal complexities associated with the process, it is expected that the commercial negotiations will be protracted, and thus the final outcome remains an uncertain and significant risk to the Group.

Elsewhere in the business there were good performances. Overseas construction continued to perform well and achieved sound close-outs of the Vale contract in Malaysia and a number of other contracts in Asia, Middle East and New Zealand.

Electrix maintained its trend of strong growth in revenue and earnings.

The performance of Built Environs improved but its profit performance was affected by challenges experienced on the Perth Airport and Ocean Keys projects, and growing competition in its markets.

Improving project execution

McConnell Dowell implemented a range of initiatives to strengthen project execution, including key changes to the structures of Australian operations and the pipelines business unit to improve performance and better position the operations for changes occurring in the industry. Built Environs was separated from Australian operations and senior management changes were made in Queensland, and in the problem contracts, to strengthen the focus of operational leadership.

An independent review was undertaken to determine the root causes of problems on the GCRT project and ensure that they are not repeated in other major projects. Internal processes and project guidelines were strengthened to ensure current projects are delivered on schedule.

A proactive 'lessons learnt' process ensures that there is substantial sharing of knowledge about errors and execution successes in major projects across the Group. During the year, the GCRT team shared their experiences with other rail PPP projects.

Safety and environment

Major initiatives during the year under review included the introduction of critical incident reviews by senior management to drive the sharing of lessons learnt, an extensive review and simplification of the safety management system, development of targeted safety training for project teams and quarterly safety, health and environment reviews, with each business unit focusing on lead indicator performance and management of critical risks.

McConnell Dowell's safety performance was regrettably marred by a fatal incident in its American Samoa business when an employee was electrocuted after a crane contacted overhead power lines. Combined with a number of serious non-fatal incidents, this tragic event has resulted in McConnell Dowell's failure to meet its injury reduction targets. While the all injury frequency rate (AIFR) of 6,9 per 200 000 man-hours reflected a small improvement on the 2013 result of 7,2, the lost-time injury frequency rate (LTIFR) remained constant at 0,13.

There was a reduction in both the total environmental incident frequency rate and the serious environmental incident frequency rate during the year. These results signal an improvement in procedural and site-based environmental controls implemented, following the increase in frequency rates that occurred in 2013. McConnell Dowell maintained its ISO 14001 certification across the Group and uses this to drive improved environmental performance.

Human capital

McConnell Dowell's workforce remained steady throughout the year, in line with business requirements. The business achieved an overall satisfaction score of 70% in its annual employee opinion survey and continues to focus on leadership training and performance management.

Looking ahead

While challenging market conditions limited the growth of McConnell Dowell's order book to R24,1 billion at 30 June 2014, the operating group's prospects remain strong. Major new contracts secured in the second half of the 2014 financial year comprise maritime works, including a new wharf at the Webb Dock in Melbourne, ferry terminals in Brisbane, the Kempsey to Kundabung Pacific Highway extension and the Fourth Parallel Pipeline Joint Venture.

With a significant slowdown in some of its traditional markets, McConnell Dowell has shifted its focus to position itself for the opportunities available in its non-traditional markets.

The reduction in resources investment in Australia has resulted in a greater focus on securing transport (road and rail) projects across the country. The water sector is likely to grow but does not offer major project opportunities. A larger maintenance market is emerging as new projects come on line with assets that require ongoing maintenance. The Australian building market offers opportunities in commercial building, health and aged care infrastructure and a slow recovery is forecast in industrial construction.

By shifting from a capability-based to a sector-focused organisation and creating two strategic groups designed to provide a more collaborative approach to the oil and gas and mining and minerals sectors, McConnell Dowell aims to achieve increased profitable market share within these sectors.

Road PPPs continue to offer growth potential in the New Zealand infrastructure market and water, particularly irrigation, is another area where significant future investment is projected.

The infrastructure market in Southeast Asia offers ongoing opportunity, backed largely by public sector investment in road and rail networks in Singapore and Hong Kong. However, competition remains intense across all sectors in Singapore, with consequent pressure on pricing.

In the Middle East, McConnell Dowell anticipates substantial opportunities in the three Gulf Cooperation Council countries (UAE, Qatar and Saudi Arabia) in which it currently operates. In particular, Saudi Arabia has announced large investment programmes in its traditional oil and gas and petrochemical sectors as well as in other sectors to support the region's diversification strategy.

McConnell Dowell will continue to focus on its core competencies and current geographic footprint. The Southeast Asia and Middle East markets represent important growth potential.

The McConnell Dowell board has been strengthened by the appointment of non-executive directors who will play a key role in risk and commercial management. The executive team will continue to employ early corporate intervention in underperforming businesses and projects, and cost control will remain a core focus.

Construction and Engineering: South Africa and rest of Africa

Financial highlights

	2014 Rm	2013 Rm	Variance (%)
Gross revenue	8 543	7 392	16
Gross earnings / (loss)	14	(346)	(104)
Net operating (loss)	(566)	(968)	(42)
Capital expenditure	152	47	223
Total assets	4 546	4 281	6
Total liabilities	2 450	2 669	(8)

Department of Environmental Affairs head office, Pretoria, South Africa

Aveng Grinaker-LTA offers multidisciplinary services across the construction and engineering value chain to its clients in South Africa, Namibia, Mozambique, Mauritius and selected markets in the rest of Africa. Services include construction services in building, civil engineering, roads and earthworks, and mechanical and electrical engineering.

AVENG GRINAKER-LTA

12% increase in revenue

37% decline in operating losses

Chris Botha Managing Director

Aveng Grinaker-LTA operations

Sectors served

Infrastructure	Mining	Transport	Renewable energy	Power	Water
Pipelines	Oil and gas	Industrial	Commercial	Retail	Geotechnical

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Construction and Engineering: South Africa and rest of Africa continued

7%

Increase in two-year order book to R7,4 billion at 30 June 2014

9%

Portion of two-year order book outside South Africa

Aveng Grinaker-LTA was repositioned in 2013 to strengthen its service offering to clients in its core operations. As a consequence, the businesses of Aveng Steel Fabrication (ASF), Aveng Manufacturing Automation & Control Solutions (A&CS) and Aveng Manufacturing Facades were moved to Aveng Steel and Aveng Manufacturing respectively with effect from 1 July 2013*.

The South African construction industry, which generated 88% (2013: 74%) of this operating group's revenue, remained weak during the year under review. The industry was characterised by low levels of activity, strong competition, persistent labour disruptions and heavy rainfalls across South Africa in March 2014 which disrupted sites in the Lephalale area. The impact of these external factors was compounded by internal operational and commercial challenges experienced in some of Aveng Grinaker-LTA's current projects and legacy contracts. The commencement of work on the Nacala Section 2 Rail project and Majuba Rail Link contributed to an increase in revenue but, while significant improvement was achieved compared to the prior year, performance was negatively impacted by delays at the Mokolo Crocodile Pipeline (Mokolo) contract and other non-contributing legacy contracts that continue to be worked out of the revenue stream.

New executive leadership was progressively appointed during the year and tasked with minimising losses and cash outflows in 2014, strengthening project execution and commercial management and returning Aveng Grinaker-LTA to profitability. A number of interventions were implemented to achieve this over the next 12 to 18 months, including:

— Returning to a cash neutral position
— Realigning overheads with revenue
— Addressing underperformance and implementing active risk management to improve project execution and ensure projects achieve required margins
— Strengthening commercial management
— Strengthening labour relations
— Securing quality projects that fulfil both risk and return requirements.

These interventions are discussed in more detail under the key focus areas section on page 74.

Operating performance

Aveng Grinaker-LTA comprises four discipline-led business units: Civil Engineering, Mechanical and Electrical, Building and Coastal.

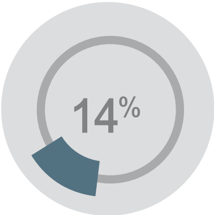
Civil Engineering includes roads and earthworks, civil construction, Karrena (concrete repairs), Rand Roads and Ground Engineering (GEL). The business unit worked on a number of major projects during the year, including the Mokolo contract which achieved good progress during the first half of the year. It had installed 21 kilometres of a total 43 kilometres of pipeline by 31 December 2013 and was on track for completion in May 2014. However, the unusually heavy rainfall in March 2014 caused significant damage and additional delays, making it necessary to extend the completion deadline to December 2015. This resulted in material losses which were partially offset by insurance claims. By 30 June 2014, 35 kilometres (81%) of pipe had been installed.

The Nacala Section 2 Rail project in Tete province, Mozambique, commenced in July 2013, and 76% of the project was completed by 30 June 2014 despite commissioning delays and heavy rains in the second half of the year. A strengthened management team introduced measures to expedite earthworks and project completion is expected in September 2014.

The Majuba Rail Link was also adversely impacted by inclement weather and labour disruptions. A revised programme was agreed with the client and increased resources on the site contributed to an improvement in production output. The project is on track for completion in October 2015.

The Medupi Power Station joint venture contract was affected by ongoing industrial action. Contractual claims were submitted to counter the eroding effect of these actions and are currently

** Comparatives have been adjusted accordingly.*



Aveng Grinaker-LTA's contribution to the Aveng Group's revenue

Progress has been made in key focus areas intended to stabilise Aveng Grinaker-LTA, address its critical challenges in underperforming contracts and return it to sustainable profitability.

being discussed with Eskom. The contract is reviewed regularly with the joint venture partner to streamline the delivery of the project.

Rand Roads' core competency is in the manufacture of bituminous and asphalt products. The surfacing (paving and seal services) section of the business successfully completed five of the 12 contracts awarded during the year. The heavy rainfalls in March and various delays in the commencement of the Rea Vaya Bus Rapid Transit (BRT) contract adversely impacted the volume output of the business. A new management team was introduced between July and October 2013 and, despite various challenges, managed to improve production volume output and profitability in line with expectations, resulting in a significant reduction in losses compared to the prior year. Internal financial controls were significantly strengthened during the year.

GEL successfully completed the piling installation for the Department of Environmental Affairs' new head office in Pretoria and the Cradlestone Shopping Mall in Krugersdorp. On the renewable energy front, GEL has installed piles for six turbine bases at the Gouda wind farm in the Western Cape and is currently installing approximately 40 800 mini-piles and posts for the Sishen solar facility near Kathu in the Northern Cape.

Mechanical and Electrical (M&E) is involved in Eskom's coal fired power plant projects. The scope of work includes the piping work on the turbines at both Medupi and Kusile, which is done in partnership with Alstom, and the remaining plant work at Kusile. The ongoing industrial action at Medupi caused delays in the project which have proven difficult to recover.

The M&E pipe fabrication workshop in Vanderbijlpark fabricated 276 000 diameter inches of piping during the 2014 financial year (2013: 137 600). This workshop mainly provides internal service to the projects in the power and oil and gas sectors, including an external contract with Alstom to fabricate 350 000 diameter inches of piping for the Eskom power stations. By 30 June 2014, 59% had been fabricated, with 155 900 completed during the year (2013: 50 600).

Inclement weather during March had a major impact on productivity at the Tweefontein coal mine optimisation project in Ogies and caused delays. The project was completed in July 2014.

The Kalagadi Manganese sinter plant project in the Northern Cape was completed during the year. The works included the mechanical, piping, electrical and instrumentation installation at the sinter plant.

Building successfully completed the design-build public private partnership (PPP) contract for the Department of Environmental Affairs' new Pretoria head office in June 2014. The project received recognition as a 'green' building with high levels of energy and water efficiency. The Cradlestone Mall project in Krugersdorp was completed during the year, while the Vodacom Data Centre in Midrand and the Sandton City Atrium repositioning are close to completion. Infrastructure building works are underway at Sasol's Shondoni Mine and the Medupi Power Station.

Work is progressing well on two new building contracts, a new head office for Sasol in Sandton and the Mall of the South in Alberton, in spite of heavy rains in the second half of the financial year and unforeseen ground conditions at the Sasol contract.

The **Coastal** operations in the Western Cape, KwaZulu-Natal and the Eastern Cape are primarily building businesses with a growing focus on civil engineering. They performed well generally, securing profits from a range of commercial building, healthcare, renewable energy, rail and road projects.

Construction and Engineering: South Africa and rest of Africa continued

Key focus areas

Financial performance

Revenue increased by 12% to R7,5 billion, largely as a result of the ramp up of the Nacala and Majuba rail contracts and the commencement of two new building projects, the Mall of the South and the Sasol head office in the second half of the year.

A net operating loss emanated from the execution of legacy contracts, most notably the Mokolo contract, at insufficient margins, labour disruptions which had an impact of R97 million, operational challenges on current major projects and high fixed overhead costs and operating expenses.

Aveng Grinaker-LTA Civil Engineering achieved a 39% increase in revenue to R3,1 billion but its profit margin was heavily impacted by the Mokolo contract which was a significant contributor to the overall operating loss.

Aveng Grinaker-LTA M&E reported a decline in revenue to R1,7 billion. The profit margin was eroded by the mechanical and electrical power projects.

Aveng Grinaker-LTA Building and the Coastal operations reported a 3% increase in revenue, largely as a result of the completion of the Cradlestone Mall contract in the first half of the year and the ramp up of the Sasol Head Office and the Mall of the South in the latter part of the year.

Operating performances had a severely adverse impact on cash flows and Aveng Grinaker-LTA remains reliant on substantial group funding. Working capital and cash management remain a priority.

Strengthen management

Chris Botha was appointed Managing Director of Aveng Grinaker-LTA with effect from 2 January 2014. He has 21 years of experience in the domestic construction industry across a range of disciplines, including civil engineering and roads and earthworks in the building, mining and power sectors. The management team was strengthened further by the appointment of five senior operations executives with between 21 and 40 years of experience in financial management, systems management, commercial management, roads and earthworks and civil engineering. This included the appointment of Richard Evans as Divisional Managing Director of civils and earthworks in November 2013 and Andrew Langham as Financial Director in 2014.

Project teams were restructured during the year to re-energise their focus and increase production capacity on site. Performance contracts were introduced for the top 120 managers to strengthen accountability for performance.

Three of the new senior executives are former employees of Aveng who returned to the business. There have been no departures by senior executives since January 2014, signalling an improvement in management stability.

Return to cash neutral position

Aveng Grinaker-LTA commenced a campaign to reduce fixed overhead costs at its head office in the second half of the year, which included redundancy of certain support function employees. The main positive impact will be experienced in the 2015 financial year.

Addressing underperformance and implementing active risk management to improve project execution and ensure projects achieve required margins

The challenges contributing to underperformance in loss-making projects were identified and interventions were implemented to establish and embed project execution standards across the project lifecycle. The strengthening of project teams, and increased engagement between senior executives and clients to ensure a clear understanding of client needs and how best to fulfil them, have been key initiatives in the bid to improve project execution.

Strengthen commercial management

Commercial risks and opportunities across the portfolio are managed through a commercial forum to ensure robustness and early warning of problems, and provide support for the realisation of opportunities. The forum is attended by commercial, legal, financial and operational managers.

This process has resulted in transparency in the management of progress billings and uncertified revenue and it provides support to commercial teams that experience difficult commercial or legal challenges.

Strengthen labour relations

The material financial impact of industrial action has made it necessary to further strengthen relationships between management, trade unions and the workforce. This has been pursued by proactively engaging with labour across all business units, strengthening the relationship between senior line managers and union leaders and conducting workshops to facilitate more effective communication between the parties.

Plans have been implemented to overcome the delays, increased costs and inefficiencies associated with labour disruption by improving productivity and increasing production time.

Maximise exposure to growth markets

Aveng Grinaker-LTA has identified the sectors that offer it the best future growth potential in South Africa, Mozambique, Namibia and Mauritius. These include mine infrastructure, industrial plants, transport infrastructure (major roads, rail and ports), water infrastructure, retail, commercial and industrial building, healthcare facilities, oil and gas, mine process plants and power plants. The operating group is determining a plan to bridge the gap between its position and the business it needs to become in order to maximise its exposure to these markets.

Aveng Grinaker-LTA is being positioned for opportunities in sub-Saharan Africa, alongside other group operations. Aveng Mozambique Limitada, a Maputo-based building company owned by Aveng, will be the platform for expansion into East Africa. Aveng has an established presence in Mauritius through its 43% holding of the multidisciplinary construction company, REHM-Grinaker.

Safety and environment

Three fatalities occurred during the year. In November 2013, an employee of Rand Roads was involved in a fatal accident while operating a bitumen distributor. In February 2014, a service provider's driver for the Soshanguve stadium project was involved in a truck accident on site. The third fatality in January 2014 involved an off-site road vehicle accident. Aveng Grinaker-LTA regrets these losses of life and has reaffirmed its commitment to a strong focus on safety management.

An overall improvement in safety performance was reflected in the reduction in the LTIFR to 0,14 (2013: 0,28), below the target of 0,2. The AIFR was 1,8 (2013: 2,6). A number of projects achieved commendable safety performances, including 6,5 million LTI-free hours at Sapref, 2,2 million LTI-free hours at Skorpion Zinc in Namibia, 1,7 million LTI-free hours at the Majuba rail project and M&E's Vaal workshop and 1,5 million LTI-free hours at M&E's Medupi projects.

Training in environmental legal liability was conducted throughout the operating group to ensure an understanding of the National Environmental Management Act. Areas of environmental concern were noted in certain workshops and Aveng Grinaker-LTA is implementing actions to address these concerns.

Refer to the sustainability overview at www.financialresults.co.za/2014/aveng-integrated-report-2014/sustainability for further insight into management actions and focus areas for the year ahead.

Looking ahead

Growth in the South African construction industry is expected to remain subdued in 2015 and profit margins will remain under pressure in an environment in which competition and labour disruptions are likely to continue. There are no immediate signs of a significant increase in government infrastructure investment.

Aveng Grinaker-LTA commenced the 2015 financial year with a two-year order book of R7,4 billion, 7% higher than the comparative in June 2013 but 13% lower than the R8,5 billion reported on 31 December 2013. The order book includes major rail and building projects that will begin to contribute significantly to operating profits in 2015, but it also contains revenue from legacy contracts from which there will be limited profit recognition due to outstanding commercial matters under negotiation.

The bulk of secured work for the next two years is in the infrastructure (50%), power (24%), mining (10%) and industrial and commercial building (9%) sectors, with the balance in the oil and gas (5%) and water and environmental (2%) sectors. This split indicates a marginal decline in infrastructure work and marginal increases in power and mining sector work compared to the 2014 financial year. Much of the work that Aveng Grinaker-LTA has tendered for but not yet been awarded is in the building, roads and mining sectors. The building and civil engineering business units each account for 41% of the order book (82% in total), while the M&E business unit accounts for 17%. Work on hand outside South Africa amounts to 9%, indicating an increase in cross-border diversification, while public sector work, which declined from R3,6 billion in the 2013 financial year to R1,5 billion in 2014, continues on a downward trend.

Progress has been made in key focus areas intended to stabilise Aveng Grinaker-LTA, address its critical challenges in underperforming contracts and return it to sustainable profitability. A strengthened leadership team remains focused on improving project execution and commercial management and aligning fixed overheads with revenue. Senior management will also focus on optimising the balance between the core functions of building, civil and earthworks engineering, and mechanical and electrical engineering to strengthen profit performance, and diversifying the portfolio of projects based on client, country, and competency to mitigate risk.

Construction and Engineering: South Africa and rest of Africa continued

Aveng Engineering offers concept and detailed engineering, design and project management services to its clients in the minerals processing, water, power and energy, and industrial sectors. Aveng Engineering complements these activities with long-term operation and maintenance services to support the full fixed asset lifecycle in these sectors in sub-Saharan Africa and Australia.

60% increase in revenue

34% reduction in net operating expenses

Gavin Young Managing Director

Aveng Engineering operations

Sectors served

Infrastructure | Mining | Mineral processing | Renewable energy | Power | Water

Project delivery improvements achieved in water projects

Operating performance

Poor market dynamics which resulted in delays, mothballing or outright cancellation of new projects continued to impact the performance of Aveng Engineering in its traditional minerals processing and acid mine drainage water treatment markets during the year.

By combining operations that serve the minerals processing, water, and power and energy sectors, Aveng Engineering is optimising its collective capacity and strengthening the resilience of the business as exposure to additional market sectors mitigates risk and enables a more efficient response to rapidly changing market dynamics.

The operating group's revenue for the year under review reflects a distinct shift from the minerals processing and water sectors, which are under pressure, to the more buoyant renewable energy sector. Operating earnings, while impacted by challenges in the water and minerals processing divisions, improved as a result of cost optimisation measures and an improved performance from the equity-accounted renewable energy business.

Power and energy

Aveng Engineering is involved in a joint venture with Acciona Energia to design, build and operate the Sishen photovoltaic solar energy farm in the Northern Cape and the Gouda wind energy farm in the Western Cape. The contracts were awarded during the second round of the South African Government's Renewable Energy Independent Power Producer Programme in 2012.

Following extensive challenges and delays in the early groundworks and civil construction of these projects, there was a strong focus on restoring the planned schedule during the year under review. Civil engineering challenges experienced in the construction of the foundations for the Sishen solar farm are being addressed and Aveng Engineering expects to meet the completion deadline of December 2014. The Gouda wind farm project is on schedule for completion in May 2015. Plans to mobilise for the operation and maintenance of both renewable energy facilities commenced in the first quarter of the 2015 financial year.

The Department of Energy has published details of a fourth round bid under the Renewable Energy Independent Power Producer Programme which provides further opportunity for participation in this market. However, as the market matures it is attracting increasingly competitive bidders, placing margins under pressure, and this is expected to be a feature of round four.

Water

The water division continued to be impacted by a lack of new work as a result of ongoing weakness in the domestic mining market it serves, and challenges at one of its main projects, the Anglo American eMalahleni Water Treatment Plant Phase 2B expansion project. While progress in project delivery improved at the eMalahleni project, extensive delays in the civil scope of the work could not be fully mitigated and this impacted the division's financial performance.

Construction works continued on the acid mine water treatment plant in Middelburg for BHP Billiton Energy Coal South Africa, and Aveng secured a five-year operations and maintenance contract for the plant. Optimisation of the Kromdraai mine water reclamation plant was completed during the year.

Operations and maintenance activities geared up in stages at the Erongo sea water desalination plant in Namibia. The plant, originally intended to support the Trekkopje Uranium Mine which has been mothballed, now supplies potable water to local communities through an arrangement between Areva and NamWater.
The contract to operate and maintain the Optimum Colliery water reclamation plant will expire early in the 2015 financial year and discussions are underway to renew the contract.

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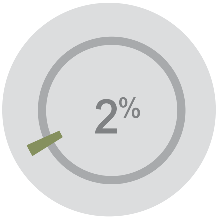
Construction and Engineering: South Africa and rest of Africa continued



Aveng Engineering's contribution to the Group's revenue

Forging a closer relationship with Aveng Grinaker-LTA (from 1 July 2014) will leverage synergies between the operations and strengthen the Aveng Group's position in the renewable energy and water markets.

Minerals processing

The minerals processing division continues to be heavily impacted by poor investment conditions in the mining industry, and has had difficulty replacing engineering, procurement and construction management (EPCM) contracts and operations and maintenance contracts that expired in 2014.

The Moma heavy mineral sands recovery plant in Mozambique was successfully commissioned in June 2013 and is operating above design capacity. However, the client, Kenmare Resources, has disputed this with Aveng and is holding back a substantial payment due upon commissioning, which has exacerbated cash flow pressures experienced by the business. Dispute arbitration proceedings have commenced but are only expected to reach resolution in 18 to 24 months.

Some long-term operations and maintenance contracts for minerals processing plants, which have in the past provided a baseload of work in a volatile market, have been negatively impacted by poor mining market dynamics. The operations and maintenance contract for Sumo's Kopermyn in Mpumalanga was cancelled due to mining out of feed material and the project has been demobilised, while the contract for Kayelekera sulphuric acid plant in Malawi expired in June 2014 and will not be renewed until the uranium price recovers.

Key focus areas

Financial performance

Aveng Engineering recorded a 60% increase in revenue to R1,0 billion (2013: R643 million), largely as a result of the renewable energy projects. Net operating earnings, despite being impacted by the challenges experienced by the water and minerals processing divisions, improved as a result of equity-accounted earnings on the good progress of the renewable energy contracts and cost optimisation measures.

While the decision to diversify away from the underperforming minerals processing sector has mitigated risk, the contracting model commonly entered into for renewable energy projects has altered the revenue profile of Aveng Engineering. Whereas minerals processing projects are generally awarded as EPCM contracts, with revenues accruing only as fees levied for managing the project, renewable energy projects are typically awarded as EPC contracts, with all project costs flowing through as business revenue. The net result is higher revenue without a material uplift in operating margins.

Restructuring, and the associated cost optimisation, enabled the business to deal more effectively with increased pressure on profit margins in competitive market environments.

A decision to be more judicious in project selection – and not take on projects with unsustainable profit margins in over-traded markets – is intended to mitigate future risk but has exacerbated the immediate challenge of replacing completed and near-complete projects.

Operational efficiency

By integrating three operations into one, Aveng Engineering has been repositioned as a leaner organisation that is leveraging synergies to improve project delivery. Deployment of advanced engineering and project management skills and techniques in all projects across the merged business has already resulted in an improvement in the reliability of project delivery.

Results have been particularly pleasing in project delivery improvements realised in the water projects. This is evident in the eMalahleni and Middelburg Water Treatment projects where problems in project delivery were corrected, which arrested schedule slippage on both projects. However, Aveng Engineering has experienced commercial challenges in these projects, none of which has yet been successfully resolved. In addition to resolving these challenges as quickly as possible, the main focus of the operating group is on achieving more balanced revenue streams from the project delivery and plant operations sectors of the business.

Geographic and market diversification

From 1 July 2014, Aveng Engineering will forge a closer working relationship with Aveng Grinaker-LTA, particularly in the renewable energy and water markets.

While the business continues to provide project delivery and plant operations services in Namibia and Zambia, its plan to diversify further into the rest of Africa has been slowed by the prolonged downturn in mining.

Safety and environment

Lost-time injuries were limited to two incidents at the Gouda wind farm project and the overall LTIFR improved to 0,19 (2013: 0,27). The AIFR was 2,08 (2013: 2,07). A number of commendable safety performances were achieved at plants that Aveng Engineering is operating and maintaining, including six years of lost-time injury (LTI) free operation at the Kopermyn and Pembani coal washing plants, four years of LTI-free operation at the Optimum and Erongo water reclamation plants and the Kayelekera sulphuric acid plant, and two years of LTI-free operation at the eMalahleni and Kromdraai water reclamation plants.

Aveng Engineering operated without any significant environmental incidents during the year.

Looking ahead

Aveng Engineering continues to be constrained by the protracted downturn in the mining and acid mine water treatment sectors. A major renewal of capital investment in the mining industry is unlikely to materialise before the 2017 financial year and the operating group's decision to mitigate risk by diversifying into other sectors is reflected in its revenue profile, where a growing percentage of revenue is being generated in the energy sector. A larger proportion of future revenue is anticipated to come from the operation and maintenance of plants across the minerals, water and energy sectors.

A number of additional renewable power opportunities are being pursued, mainly for independent power producers as they respond to the various programmes run under the auspices of the Department of Energy.

While demand for the water treatment services of Aveng Water has been lower than anticipated, the HiPro Water Recovery Process represents a competitive advantage which the Aveng Water business will be able to leverage when the water sector recovers. This is likely to occur in advance of a renewal of investment in the mining sector, as water treatment projects are likely to be required prior to the approval of new mining developments.

Forging a closer relationship between Aveng Grinaker-LTA and Aveng Engineering will leverage synergies between the operations and strengthen the Aveng Group's position in the renewable energy and water markets.

eMalahleni Water Treatment Plant, South Africa

Mining

Financial highlights

	2014 Rm	2013 Rm	Variance (%)
Gross revenue	6 582	7 435	(11)
Gross earnings	874	1 008	(13)
Net operating earnings	529	701	(25)
Capital expenditure	298	615	(52)
Total assets	4 848	5 100	(5)
Total liabilities	2 244	2 582	(13)


Sadiola Hill Gold Mine, Mali

Aveng Mining offers services across the mining value chain, from shaft sinking, underground development, contract mining and open cut mining, to construction of mine infrastructure. The operating group's experience spans a broad range of commodities and it has worked successfully in remote and difficult locations.

AVENG MINING

43%

increase in two-year order book to R8,6 billion

8%

operating profit margin

Stuart White Managing Director: Aveng Moolmans
Brian Wilmot Managing Director: Aveng Mining Shafts & Underground

Aveng Moolmans
Aveng Mining Shafts & Underground

Sectors served

- Mining
- Geotechnical

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Mining continued

Aveng Mining comprises Aveng Moolmans (open cut mining) and Aveng Mining Shafts & Underground (shaft sinking, access development and contract mining).

Aveng Mining continued to be impacted by conditions in the mining industry which contributed to Aveng Moolmans' non-renewal of two gold mining contracts in Ghana and Guinea during the second half of the financial year. A further gold mining contract was completed in Tanzania during the second half. These developments were partially offset by the award of a major project in South Africa, strong operational performances in the domestic market and the extension of two existing contracts in southern Africa.

Aveng Mining Shafts & Underground was heavily impacted by challenges experienced at the Chuquicamata copper mine in Chile and margin slippage at some South African projects which were severely impacted by labour disruptions, particularly the Wesizwe Platinum Bakubung mine project.

Operating performance

Aveng Moolmans

Aveng Moolmans owns and operates heavy earth-moving and mining equipment and is one of the largest open cut mining contractors in Africa, mining over 20 million tonnes of material monthly.

In December 2013, Aveng Moolmans was awarded a significant five-year contract at the Nkomati Nickel mine in Mpumalanga for the African Rainbow Minerals and Norilsk Nickel Africa joint venture. The contract to mine 30 million tonnes per annum of waste and ore was scheduled to commence in September 2014 but an early start in July 2014 was negotiated. Aveng Moolmans also secured extensions for Tati Nickel's Phoenix Mine in Botswana to September 2015 and the Langer Heinrich Uranium Mine in Namibia to December 2018. Available fleet will be largely utilised for these new and extended contracts.

Aveng Moolmans continued to record good operational performances in its South African operations. Work proceeded on the Sishen Iron Ore mine and Kolomela iron ore expansion project in the Northern Cape province, both for Anglo American's Kumba Iron Ore; the Smaldeel mini-pit in Mpumalanga for BHP Energy Coal South Africa; and the Tshipi Borwa open cut manganese mine contract in the Northern Cape, where a combination of efficiency improvements, client relationship management and good management of labour relations contributed to solid performances.

The non-renewal of contracts, new awards and extensions have altered the geographic and commodity profile of Aveng Moolmans' project portfolio and reduced its over-exposure to one client in the gold mining sector. Whereas work in the rest of Africa accounted for 57% of the order book in 2013, it has now been reduced to 33%. The business unit's exposure to the gold sector has declined from 25% of its revenue in 2014 to a forecasted 2%, with increases in the nickel and iron ore sectors.

Aveng Mining Shafts & Underground

Aveng Mining Shafts & Underground provides services in shaft sinking, access development and contract mining across a range of commodities in South Africa, the rest of Africa and South America. It is one of only four deep-level shaft sinking companies in the world, with experience in vertical shaft sinking below 1 000 metres.

Work on the 975 metre shaft at Codelco's Chuquicamata Copper Mine in Chile was beset with challenges during the year, following an eight-month delay in site access the previous year. Adaptation to country-specific labour practices and challenging requirements related to seismic designs caused further delays in the start-up and initial shaft sinking operations. Agreement has, in principle, been reached with Codelco, the client for the Chuquicamata contract, to the settlement of a significant amount of outstanding claims. This will assist the contract to return to profitability and reduce cash flow pressure.

In South Africa, Aveng Mining Shafts & Underground is continuing with work at Wesizwe Platinum's Bakubung mine and Sasol's Shondani coal project, and commenced work at the Platreef exploration shaft in conjunction with Aveng Grinaker-LTA, which was involved in civil engineering work. In the horizontal development market, the contract at Eland Platinum continues to deliver a good performance and the Styldrift horizontal development project in expected to commence in the new financial year.

The operation has completed all of its Zambian contracts and is pursuing a number of other opportunities. Aveng Mining Shafts & Underground is pursuing outstanding claims associated with one of the completed contracts.

Key focus areas

Financial performance

Aveng Moolmans recorded a 14% decline in revenue to R4,7 billion due largely to the cancellation of the Lumwana copper contract in Zambia in 2013, the non-renewal of two gold contracts and completion of a third in the second half of 2014. Net operating earnings were further impacted by the unforeseen costs associated with demobilisation of some equipment and project closures and a reduction in scope at the Sadiola contract in Mali.

The Phoenix contract in Botswana continued to perform below expectation. This is largely attributable to the impact on efficiencies of the mine nearing end-of-life. The Nkomati project commenced on 1 July 2014 and therefore made no contribution to revenue or earnings during the year. Efficiency initiatives undertaken by management will assist in sustaining the underlying strength of Aveng Moolmans' overall financial performance.

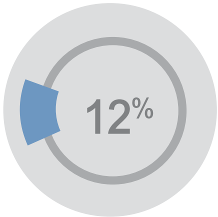
Aveng Mining Shafts & Underground reported a 3,4% decline in revenue to R1,9 billion due to the impact of conditions in the mining industry and a more selective approach to new work in order to strengthen the quality of the operation's earnings. Net operating earnings were impacted by challenges experienced at some projects, and labour disruptions of R20 million.

The combined Aveng Mining ended the year with revenue of R6,6 billion (2013: R7,4 billion) and net operating earnings of R529 million (2013: R708 million). The combined operating profit margin declined to 8% (2013: 9,5%).

Moolmans Mining Zambia is currently in a taxation dispute with the Zambia Revenue Authority (ZRA) relating to additional taxation assessments. Aveng Moolmans has raised sufficient provision in this regard.

Operational efficiency

Aveng Moolmans maintained its practice of continuous improvement to extract maximum value from its mining equipment and has strengthened its focus on extending the life of equipment



It is anticipated that investment in the mining industry will remain constrained during the 2015 financial year. However, uncertainty in the industry gives rise to increased use of contractors and a number of related opportunities are becoming evident.

Aveng Mining's contribution to the Group's revenue

with effective monitoring and maintenance. Most of the idle equipment has been, or will shortly be, deployed on projects.

The Shafts & Underground operation is in a process of rightsizing its fixed overhead costs relative to its gross earnings margin, and strengthening working capital management.

Geographic expansion

In challenging operating environments, Aveng Moolmans attempts to mitigate risk by diversifying its portfolio of assets across a range of geographies, commodities and clients. The loss of two projects (a third was completed and a fourth downscaled) undertaken with one client in a single commodity in the rest of Africa confirms the risk of not diversifying sufficiently. While Aveng Moolmans is not under pressure to secure replacement work in Guinea or Mali to utilise idle mining equipment, it is pursuing other opportunities to rebalance its portfolio and capitalise on growth prospects in Africa. The idle fleet from the completed contract in Ghana will be fully utilised at the Nkomati contract in South Africa.

Further afield, the development of a strong presence in deep-level shaft sinking in Chile should open up other opportunities for Aveng Mining in the Chilean copper industry.

Safety and environment

Aveng Moolmans and Aveng Mining Shafts & Underground were both fatality-free in 2014. Both operations maintained a strong focus on safety and visible safety leadership during the year. The combined LTIFR was 0,42 (2013: 0,21). The AIFR was 1,81 (2013: 1,84). Shafts & Underground achieved three million fatality-free shifts in February 2014.

No major environmental incidents were recorded during the year.

Human capital

Brian Wilmot was appointed acting Managing Director of Aveng Mining Shafts & Underground in June 2014 following the resignation of Martin Hobbs in February 2014. Brian brings 22 years of experience in contract mining in Africa to this role. Shafts & Underground appointed new financial and engineering directors on 1 April 2014 and Moolmans appointed a new human resources director.

Aveng Mining has a strong focus on leadership and skills development. Aveng Moolmans is accredited by the Mining Qualifications Authority (MQA), and 443 people undertook MQA skills training internally. Apprenticeships amounted to 145 registered, with 21 qualifying during the year, and a civil engineering bursar is due for completion in 2014.

The communities in which the business operates are major stakeholders, particularly on the long-term contracts where localisation and skilling of the local workforce provides a social and competitive advantage.

Looking ahead

The combined two-year order book of Aveng Mining increased to R8,6 billion (2013: R6 billion) as a result of the Nkomati Mine award, contract extensions and new awards for Shafts & Underground.

Aveng Moolmans accounts for 68% of the order book, with significant long-term contracts at Nkomati Nickel Mine and Sishen Iron Ore Mine in South Africa. Work outside South Africa has declined from 57% in 2013 to 33%, and while securing replacement work in the rest of Africa is difficult in the prevailing mining environment, Moolmans is pursuing opportunities in copper, zinc and coal in southern Africa and iron ore in West Africa.

Shafts & Underground is strongly positioned for a number of opportunities in the Rustenburg region, where work was tendered on two major long-term shaft sinking projects, and the Styldrift development contract is due to commence. The Platreef project has been awarded a mining licence and expects its environment management plan to be approved early in the new financial year. Platreef has the potential to grow into a multi-shaft project in future.

In Chile, Aveng Mining Shafts & Underground has completed the pre-sink phase of the Chuquicamata vent shaft and the main sink has commenced.

It is anticipated that investment in the mining industry will remain constrained during the 2015 financial year. However, uncertainty in the industry gives rise to increased use of contractors and a number of related opportunities are becoming evident.

The cost pressures faced by mining companies will maintain pressure on contractors' profit margins. In this environment, Aveng Moolmans and Aveng Mining Shafts & Underground will both focus on improving internal operational efficiencies and managing risk by ensuring that contracts are undertaken with sound clients on viable projects.

Manufacturing and Processing

Financial highlights

	2014 Rm	2013 Rm	Variance (%)
Gross revenue	10 612	10 555	1
Gross earnings	1 153	1 078	7
Net operating earnings	364	235	55
Capital expenditure	406	306	33
Total assets	7 029	6 629	6
Total liabilities	2 589	2 202	18

Aveng Manufacturing Infraset operations, Tete, Mozambique

Aveng Manufacturing manufactures and supplies concrete products to the construction sector, services and engineered solutions to mining, water, oil and gas and construction clients, and rail construction and maintenance services to the transport sector.

AVENG MANUFACTURING

13%

growth in revenue to R3,5 billion

26%

growth in operating earnings to R227 million

Solly Letsoalo Managing Director

Aveng Manufacturing operations

Sectors served

Infrastructure | Mining | Transport | Power | Water | Industrial | Commercial | Geotechnical

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Manufacturing and Processing

Aveng Manufacturing comprises Aveng Manufacturing Infraset, Aveng Manufacturing Duraset, Aveng Manufacturing Lennings Rail Services and Aveng Manufacturing Dynamic Fluid Control. Aveng Manufacturing Automation & Control Solutions and Aveng Manufacturing Facades were moved from Aveng Grinaker-LTA to Aveng Manufacturing, and Steeledale was combined with Aveng Steel, all with effect from 1 July 2013.*

Aveng Manufacturing reported solid revenue growth and a strong improvement in operating earnings for the full financial year although the pace of growth slowed in the second half of the year. Tough trading conditions, exacerbated by labour disruptions in the platinum and gold sectors, impacted the performances of business units exposed to the mining industry. This was offset by the award of major construction, maintenance and materials supply contracts for railway projects in South Africa, Mozambique and Zambia, as well as ongoing demand for construction products in South Africa.

Operating performance

Construction products and rail construction and maintenance

Aveng Manufacturing Infraset benefited from the aggressive pursuit of opportunities in its precast concrete markets in South Africa and southern Africa and was particularly successful in increasing the supply of concrete sleepers and pipes to rail projects.

Infraset is supplying 58 000 sleepers from its newly constructed factory in Tete, Mozambique to the Nacala Section 2 Railway Project and 140 000 sleepers from its Brakpan factory to Zambian Railways, with the potential to supply a further 300 000 sleepers from its Zambian factory. In March 2014, Infraset was awarded a contract to supply pipes and sleepers to Eskom's Majuba Rail project and the company also supplied sleepers for a rail development project for Kalagadi Manganese in the Northern Cape. In addition, Infraset experienced ongoing growth in the supply of its tile and paving products to low-cost housing projects in South Africa.

In order to meet the substantial increase in demand for railway sleepers as well as growing demand for concrete rail masts and culverts, Infraset expanded production capacity at its Brakpan factory and recommissioned the previously mothballed sleeper line at the Westonaria factory.

Lennings Rail Services regained momentum after completion of the FMG rail construction project in Australia by winning a number of rail construction and maintenance awards in Mozambique and South Africa. Rail construction for the Nacala Section 2 Railway Project commenced in November 2013 and is scheduled for completion in October 2014, and mobilisation for construction of the two-year Majuba Rail project began in July 2014. Lennings was also awarded a number of three-year contracts for maintenance of the Transnet rail network and the business unit continues to work on rail construction projects for Exxaro and Kalagadi Manganese in the Northern Cape.

Infraset and Lennings were the main contributors to the improved financial performance of Aveng Manufacturing during the year under review. Infraset achieved 37% growth in revenue to R1,2 billion and Lennings achieved strong growth in operating earnings, in spite of a 10% decline in revenue to R687 million due to the completion of the FMG rail construction contract. While the Nacala project partially offset the loss of cross-border revenue, the Majuba Rail project commenced at the beginning of the 2015 financial year and therefore did not contribute to revenue and earnings in 2014.

Aveng Manufacturing Facades experienced significant growth in revenue during the first half of the year as a result of its work on major building projects such as Sandton City's Atrium on 5th and Pretoria Towers. Cost overruns, together with labour disruptions, resulted in an operating loss for this business unit. New leadership has been appointed and the business is being repositioned to strengthen its future performance.

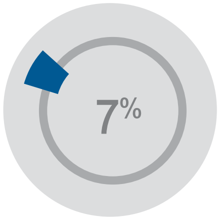
Mining and water supplies

Aveng Manufacturing Dynamic Fluid Control (DFC) and Aveng Manufacturing Duraset both have exposure to the mining industry and continued to be impacted by lower demand and industrial actions, particularly at the platinum mines they serve.

Duraset was worst affected due to low demand, high competition and protracted strikes which contributed to a 6% reduction in revenue to R559 million. A number of procurement savings and manufacturing process improvements undertaken at Duraset were not sufficient to offset the financial impact of mining strikes and a decline in the sale of higher-margin products, and Duraset reported an operating loss for the year. Cost management will contribute to a reduction in fixed overhead costs in the 2015 financial year. Duraset continues to focus on improving the balance of its product mix by increasing the sales of higher-margin products. New product lines such as the zinc coating plant and pre-stressed steel pots which commenced service to a range of markets in 2013 achieved growth in volumes during the year under review.

DFC achieved 9% growth in revenue to R427 million, due to the impact of higher international sales volumes in the USA and Finland, and the weaker rand despite the softer mining and water markets in South Africa and Australia.

** Comparatives have been adjusted accordingly.*



To replace the major projects that will be completed late in 2015, Aveng Manufacturing is pursuing additional rail maintenance work in Mozambique and other rail construction and track maintenance opportunities in the rest of Africa.

Aveng Manufacturing's contribution to the Group's revenue

DFC entered into long-term contracts with Tsurumi, a Japanese supplier of water pumps and Clay-val, a European supplier of large water valves, to supply their products in the rest of Africa. The business unit concluded an acquisition of South African company, Atval on 1 July 2014 to gain access to the high-pressure knife gate valve market and diversify its product range. DFC's US operation is pursuing opportunities to expand into Latin America, Canada and Russia.

Automation & Control Solutions (ACS) performed well, reporting a 17% increase in revenue to R460 million in spite of delays in the award of new contracts. The business unit benefited from earlier than planned major shut-downs in the petrochemical industry in the first half of the year and an increase in opportunities in the oil and gas and mining industries. It also focused on improving operational efficiencies and strengthening its business development in the sugar, water and chemical process industries.

Key focus areas

Financial performance

Overall, Aveng Manufacturing delivered a strong financial performance in spite of tough market conditions, labour disruptions and losses at two of its operations.

Total revenue grew by 13% to R3,4 billion (2013: R3 billion), largely as a result of substantial increases in the volumes of sleeper sales in Mozambique, Zambia and South Africa, the award of significant rail construction and maintenance contracts, and ongoing growth in the supply of concrete products to domestic construction projects. Net operating earnings grew due to the higher volumes, an improvement in the gross profit margin and the management of costs.

Aveng Manufacturing lost R19 million in operating earnings due to labour disruptions, 84% of which was incurred by Duraset, largely as a result of strikes in the platinum sector. Facades and DFC incurred the balance of labour related losses.

Interventions to reduce Duraset's cost base will continue in 2015.

Working capital management

Aveng Manufacturing focused on strengthening working capital management by improving receivables collection and inventory control during the year.

Geographic expansion

Aveng Manufacturing expanded its capacity in the rest of Africa during the year to accommodate significant growth in demand for concrete products used in the construction and maintenance of railways. A new concrete products factory in Tete, Mozambique commenced operations in March 2014 to supply the Nacala Railway Project and is well positioned to capitalise on other opportunities in the coal mining and related infrastructure developments in Tete province and further afield in East Africa. The operating group is considering expanding its factory in Zambia to serve increasing demand from Zambian Railways, and it also operates a factory in Swaziland.

DFC has grown its presence in international markets in recent years and currently trades in North and South America, Europe (with a strong presence in Finland), Russia and the Middle East. Supply agreements with international water pump and large valve suppliers will diversify DFC's product range and extend its reach into the rest of Africa. Furthermore, the acquisition of Atval will provide access to high pressure valve export markets in Africa, Europe, and North and South America.

Plant and product development

In an increasingly competitive environment, Aveng Manufacturing adapts continuously in order to capitalise on new opportunities, diversify its product range and strengthen the profitability of its product mix. Initiatives in this regard have included the opening up of new factories or expansion of existing facilities to serve growing demand, the consolidation or closure of factories to maximise efficiency, and investments in new product development to maintain a competitive edge.

This strategy is reflected in capital expenditure of R187 million (excluding intangibles) during the year which funded the development of the new factory in Tete, a rail construction plant for Nacala Section 2, the manufacture of three tamping machines for rail

Manufacturing and Processing continued

maintenance (one of which was sold to the Bombela Consortium for Gautrain), and machining centres and rubber presses for DFC.

Safety and environment

Manufacturing businesses are required to comply with a range of regulations to minimise their impact on the environment and communities affected by their operations. An environmental inspection was undertaken by the Gauteng Department of Agriculture and Rural Development at the operations of Aveng Manufacturing during the year under review. The areas that needed to be addressed included covering coal bunkers to prevent run-off into drains, preventing ash contamination of soil and run-off into drains, reducing dust, smoke and boiler emissions, and ensuring appropriate management of waste disposal. The majority of actions to address areas of improvement were completed during the year and the few remaining remedial actions are well underway.

Substantial increases in sleeper sales volumes during the year were accompanied by higher numbers of new employees. This caused a deterioration in the safety performance at the Brakpan facility and an increase in injuries. As a consequence, the operating group's LTIFR increased to 0,7 (2013: 0,6). The AIFR however improved to 3,71 (2013: 6,27). No fatalities occurred. A concerted effort is being made to strengthen safety management at the Brakpan facility.

Human capital

Ben Khonyane resigned as Managing Director of Duraset and Facades with effect from April 2014. Wouter de Gidts, Managing Director of Lennings, was appointed Managing Director of Facades and retains his position at Lennings. Richard Tembedza, a chartered accountant with experience in business development, was appointed acting Managing Director of Duraset.

Aveng Manufacturing has a succession plan and a skills development plan in place and has made progress in establishing a human resources management structure with learnerships, mentorships, performance contracts, a review process and individual development plans.

An Aveng DNA survey conducted at Aveng Manufacturing identified empowerment and honesty, integrity and trust as the top enablers of performance, while communications and corruption were identified as the leading disablers. Actions, including a facilitated session for the top 100 managers, have been implemented to address the disablers and reinforce the enablers.

Higher levels of interaction between employees and senior management continue in an effort to strengthen labour relations.

Looking ahead

Aveng Manufacturing enters challenging market environments in a strong position in the 2015 financial year.

Railway development remains a key growth market and Aveng Manufacturing will continue to construct and supply concrete products for the major projects underway in Mozambique, Zambia and South Africa during 2015. Lennings secured its order book for 2015, including a number of three-year contracts to develop and maintain the Transnet rail network, and ongoing work for rail development projects related to iron ore mining in the Northern Cape and coal mining in the Waterberg. Infraset has expanded its facilities to serve ongoing current and projected demand for concrete sleepers, masts and culverts in Mozambique, Zambia and South Africa, and it continues to experience strong demand for its concrete products used in the domestic construction market.

To replace the major projects that will be completed late in 2015, Aveng Manufacturing is pursuing additional rail maintenance work in Mozambique in partnership with the ports and railroad authority, CFM, and other rail construction and track maintenance opportunities in the rest of Africa.

DFC's campaign to diversify its product range and grow its markets outside South Africa has received a significant boost from new long-term supply arrangements and the acquisition of Atval.

Duraset will focus on strengthening its financial performance and diversifying into growth markets with innovative new products. The business unit's zinc coating product serves the diverse automotive, power, construction and mining markets and continues to generate growth, while other new products are in development.

Aveng Steel supplies a wide range of products and services to the southern African construction, mining and automotive industries from its steel processing centres and manufacturing plants; and supplies fabricated products for structural applications from its Vanderbijlpark plant.

52%

improvement in AIFR

Aveng Steel operations

Hercu Aucamp Managing Director

Sectors served

- Infrastructure
- Mining
- Power
- Industrial
- Commercial
- Automotive

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Manufacturing and Processing continued

Aveng Steeledale and Aveng Steel Fabrication both achieved a turnaround to profitability

Aveng Steel was formed on 1 July 2013 when the Aveng Group's steel businesses were combined into one operating group to leverage their collective value. Aveng Steel comprises Aveng Trident Steel, Aveng Steeledale and Aveng Steel Fabrication.

Aveng Steel operated in extremely challenging market conditions during the year under review. Lower demand from the construction industry in a generally weak economy was compounded by industrial action in the automotive, construction and mining sectors along with high levels of competition. The situation was further exacerbated by general overstocking in the industry.

Operating performance

Aveng Trident Steel

Aveng Trident Steel, a steel merchant and processor and the largest revenue contributor to Aveng Steel, was heavily impacted by two major setbacks during the first half of the financial year. A fire caused extensive damage to the ArcelorMittal steel plant in Vanderbijlpark in February 2013, causing a three-month shutdown of the facility and forcing its customers to import steel. The timing of the imports coincided with the reopening of the ArcelorMittal facility in mid-2013, causing overstocking and placing further pressure on volumes and profit margins in the steel industry. In mid-August, a seven-week strike commenced in the automotive industry, a strategically important market for Aveng Trident Steel.

In the second half of the financial year, the steel industry remained weak as a result of overstocking in the first half and, despite a marginal improvement in prices and some stabilisation in inventory levels, low demand and intense competition maintained downward pressure on the industry, forcing an increase in steel business liquidations.

Cost associated with labour disruptions amounted to R43 million (2013: R19 million).

Aveng Steeledale

Aveng Steeledale, a supplier of beneficiated steel reinforcing bars and mesh for concrete structures, recorded significant losses in the 2013 financial year as a result of low demand, very competitive pricing in an already embattled industry and internal financial control weaknesses. Although demand for mesh products increased in 2014, challenging conditions persisted as domestic demand for infrastructure projects remained weak and competitive pricing and fixed-price contracts eroded profit margins.

The primary focus for Steeledale during the first half of the financial year was to restore fundamental business practices, including financial controls, and achieve a turnaround in profitability. A restructuring of the business resulted in a significant reduction in headcount and other direct and indirect costs. Stronger emphasis was placed on leveraging Steeledale's competitive advantages of geographic spread and experience in managing construction sites.

Aveng Steel Fabrication

Steel Fabrication, a fabricator of structural steelwork and other industrial products, targets large projects in major industries. The contract to supply fabricated steel to the Medupi and Kusile power stations proceeded according to plan and will continue through the second half of the 2015 financial year. A number of projects in the mining and renewable energy sectors were completed during the year. Low levels of demand for infrastructure development and the depletion of work on hand impacted the business unit's financial performance and measures were applied in the second half of the financial year to reduce costs and secure additional work.

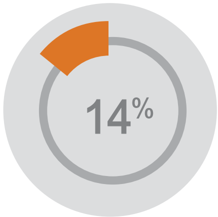
Key focus areas

Financial performance

The financial performance of Aveng Steel was heavily impacted by subdued activity in its key markets resulting in a 4% decline in revenue to R7,2 billion.

The profit margins of Aveng Steel declined as marginal price increases and foreign exchange benefits did little to offset the impact of labour disruptions and lower demand in the industry.

The benefits of integrating the three businesses began to materialise during the year and interventions to rightsize Aveng Steeledale and Aveng Steel Fabrication resulted in additional cost reductions. As a consequence of these actions, Aveng Steeledale achieved a turnaround and delivered a net operating profit in the second half of the financial year. Cost-cutting measures combined with improved productivity on some projects enabled Aveng Steel Fabrication to return to profitability.



Aveng Steel's contribution to the Group's revenue

Aveng Trident Steel will continue to focus on diversifying its revenues and strengthening its profit margins by increasing its branch network in South Africa, increasing value added products and maintaining its focus on operational efficiency improvements.

A historic claim against Genrec for a sub-contract to supply fabricated steel to Medupi and Kusile proceeded to arbitration in August 2014.

Working capital management

Improving working capital management remains a key focus area for Aveng Trident Steel, which experienced an increase in inventory levels due to low product demand as a result of labour disruptions in the construction and automotive markets. Inventory levels reduced during May and June 2014.

Aveng Trident Steel implemented a new SAP ERP system during August 2013. This will improve working capital management in future.

Aveng Steeledale increased its focus on receivables management.

Operational efficiency

To mitigate the impact of volatility in the steel industry, Aveng Trident Steel has, for a number of years, balanced a strong internal focus on continually strengthening its capacity and efficiencies, with an external initiative to drive growth by diversifying its market, product range and geographic footprint.

Much of the focus of Aveng Steel has been on integrating the three businesses and leveraging the synergies between them. Procurement and support functions were centralised during the year, resulting in cost benefits, sales functions were rationalised and the businesses are all benefiting from knowledge transfer.

Capital expenditure of R117 million for property, plant and equipment and R66 million for intangible assets was incurred to fund projects to strengthen processing capacity and service delivery in the regional branches. These include the commissioning of a tube laser and a peeling machine / spring steel-processing facility in Roodekop; and the installation of a new cut-to-length line for the KwaZulu-Natal operation. The new SAP enterprise resources planning system which went live in August 2013 also contributed to a significant improvement in the efficiency of data management and internal business processes.

Geographic expansion

Aveng Steel has a footprint in all nine South African provinces and continues to strengthen its regional network of branches in South Africa. The business unit also extends all of its offerings beyond the domestic market to southern Africa where it is represented in Zambia, Namibia, Lesotho, Mozambique and Swaziland. Aveng Steeledale established a presence in Maputo in 2014 to serve increasing demand for its products in Mozambique.

Market expansion in the rest of Africa has been negated by delays in the award of mining-related contracts in Tete province, Mozambique.

Safety and environment

A strong focus on safety enabled Aveng Steel to achieve an LTIFR of 0,3 (2013: 0,4), after recording consistent annual improvements in recent years. The AIFR was 5,1 (2013: 10,6).

Looking ahead

The steel industry is expected to remain under pressure in 2015, with no significant improvement in prices or demand anticipated in the current economic environment. The steel sector labour disruptions in July 2014 will have a notable impact on the first half of the 2015 financial year.

Aveng Trident Steel will continue to focus on diversifying its revenues and strengthening its profit margins by increasing its branch network in South Africa, adding value added products and maintaining its focus on operational efficiency improvements.

Aveng Steeledale will focus on strengthening its distribution network and maintaining a lower cost base. The business will benefit from an increase in infrastructure investment.

Aveng Steel Fabrication will focus on a continued turnaround of its operations and achieving sustainability by reducing fixed overhead costs and securing more viable work.

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Introduction

Relationships are intrinsic to the Aveng Group's strategy: good relationships with clients, investors, stakeholders, the environment, and the relevant authorities. At Aveng, we call the management of these relationships corporate governance, and we believe it is crucial for our organisation. During the year, a comprehensive stakeholder engagement plan was developed, with specific focus on how the organisation engages with those stakeholders, how it can strengthen bonds, and of course how to get more work.

Efficiency and project execution were under the spotlight, and in the year under review the Group enhanced its systems to ensure that they are responsive to its material issues. The vision statement was refreshed and the Group was streamlined to achieve clear accountability at operating group level with strategic guidance from the centre. The aim was to ensure as far as possible that the Code of Conduct, and more importantly the principles espoused in the Aveng DNA (www.financialresults.co.za/2014/aveng-integrated-report-2014/sustainability), are applied to every decision of consequence.

Executive summary

Leadership and board composition

On 31 August 2013, Roger Jardine resigned as Chief Executive Officer (CEO) of the Group, and the remuneration and nomination committee took on the complex task of filling this strategic position. Kobus Verster, the Group's Financial Director, took on the role of acting CEO. This required a special dispensation from the JSE to allow Kobus Verster to fulfil the role of acting CEO while continuing his full-time employment as Group Financial Director. After a thorough international search, Kobus Verster was formally appointed to the position of Group CEO in February 2014 and a new search for a Group Financial Director was embarked upon. Once again, this required a special dispensation from the JSE to allow Kobus Verster to be employed as full-time CEO while taking on the responsibilities of an acting Group Financial Director. On 8 September 2014, Adrian Macartney was appointed as Group Financial Director enabling Kobus Verster to relinquish his acting position.

Each member of the Board offers a wide range of relevant knowledge, expertise, commercial and technical experience and business acumen that allows them to exercise independent judgement in board deliberations and decision-making. Annually, the Board's composition, skills, experience and succession plans are reviewed. This year two new directors, Eric Diack and Kholeka Mzondeki, were appointed to the Board to replace two long-serving non-executive directors, Nkululeko Sowazi and Myles Ruck, who resigned in December 2013. With the retirement of Rick Hogben on 20 August 2014 after eight years of service, the Board took the opportunity to determine whether additional non-executive directors were needed apart from the appointment of another non-executive who could strengthen its construction and engineering experience.

During the year, Eric Diack was appointed to the McConnell Dowell board in Australia and Ian Luck, who has 40 years of experience in the industry, was also appointed to that board as an independent non-executive director.

The global trend with regard to board structures is to reduce the number of executive directors to a minimum and thereby restrict the size of boards. In South Africa the transformation requirement in terms of the new B-BBEE Codes requires 50% of the Board to comprise black directors and 25% to be women. It is likely that boards in South Africa will get bigger to accommodate these requirements as well as balancing the skills needs. For the year under review the board profile was 42% black and 25% black female.

Composition of board committees

Following the changes to the Board, the skills, experience and diversity profile of the board committees were assessed and the following changes were made:

Audit committee: With the resignation of M Ruck and the retirement of R Hogben, E Diack and K Mzondeki were nominated as suitable replacements with the necessary qualifications and experience to execute the Board's statutory responsibilities in terms of the Companies Act 71 of 2008.

Remuneration and nomination committee: R Hogben retired from the committee as member and Chairman with effect from 12 February 2014, and T Mokgosi-Mwantembe was appointed as Chairman of this committee with immediate effect. The addition of M Seedat meant that the committee was properly constituted and no further appointments were necessary. Both of these directors have the requisite experience in the remuneration field.

Social, ethics and transformation committee: M Seedat replaced N Sowazi as chairman of the committee. At the board and strategy meeting in December 2013, it was agreed that the Group's transformation efforts require stronger focus and that M Seedat is suitably qualified to provide strong oversight on this critical imperative. With both T Mokgosi-Mwantembe and A Band remaining members, the committee was properly constituted in terms of skill, experience and corporate memory.

Safety, health and environmental committee: This committee remained properly constituted in terms of skill and experience and was unaffected by any of the changes.

Risk committee: This committee remained properly constituted with P Erasmus as Chairman and M Kilbride, A Band and P Ward as members but was strengthened by the appointment of E Diack as an additional member. The tender risk committee, a sub-committee of the risk committee, was also reinforced by the appointment of E Diack as an additional member. A non-executive director of McConnell Dowell, I Luck, was appointed to the tender risk committee specifically for McConnell Dowell projects.

Investment committee: The resignation of both M Ruck and N Sowazi resulted in the investment committee losing two members including the chairman. E Diack and M Kilbride were appointed to this committee, with E Diack as Chairman. E Diack is an experienced Non-Executive Director with strong finance, general management and investment experience across various industries and will be well placed to lead this committee.

Competition Law reference committee: Following the announcement of the fast-track settlement process by the Competition Commission in February 2011, this *ad hoc* advisory committee was established to support and advise management in dealing with the matter. Members of this committee were A Band, M Ruck and N Sowazi. Following Messrs Ruck and Sowazi's resignations, M Seedat and M Hermanus were appointed onto this *ad hoc* advisory committee.

Structure of board committees for the period under review

Aveng Limited

AWB Band△ – Chair
EK Diack△ – Non-executive
PJ Erasmus△ – Non-executive
MA Hermanus△ – Non-executive
RL Hogben△ – Non-executive○
MJ Kilbride△ – Non-executive
JJA Mashaba – Executive
T Mokgosi-Mwantembe△ – Non-executive
KW Mzondeki△ – Non-executive
DG Robinson – Executive
MI Seedat△ – Non-executive
HJ Verster – Executive
PK Ward△ – Non-executive

△ *Independant*
○ *Retired on 20 August 2014*

Audit committee	Risk committee	Remuneration and nomination committee	Investment committee*	Safety, health and environmental committee	Social, ethics and transformation committee	Competition Law reference committee*
PK Ward – Chair	PJ Erasmus – Chair	T Mokgosi-Mwantembe – Chair	EK Diack – Chair	MA Hermanus – Chair	MI Seedat – Chair	AWB Band – Chair
EK Diack	AWB Band	AWB Band	AWB Band	MI Seedat	AWB Band	MA Hermanus
KW Mzondeki	EK Diack	MI Seedat	MJ Kilbride	MJ Kilbride	T Mokgosi-Mwantembe	MI Seedat
	MJ Kilbride					
	PK Ward					

* *Ad hoc committees*

Executive summary continued

Key governance initiatives during the year

In the year under review, the Aveng Group continued its compliance initiatives and the memorandums of incorporation of all subsidiary companies were brought in line with the new Companies Act. In the previous period, several dormant companies had been closed so the group structure was revisited to ensure visibility of the number of companies and how they are related.

In 2013, a group legal compliance officer was appointed to monitor adherence to all relevant legislation. This year, a regulatory compliance assurance framework was developed and rolled out at both corporate office and operating group level. The Board appropriately gave particular attention to Competition Laws. At each operating group, a compliance leader was nominated to support the Group Compliance Officer.

A policy management framework was also established to ensure a single streamlined, and uniform system governing the development, formulation, approval, dissemination and maintenance of policies. The process is centrally governed and supported by the office of the Group Compliance Officer, and a central repository of group policies has been created on the Aveng Group Intranet. Policy implementation was decentralised to the appropriate corporate functional divisions and operating groups.

Charters, work plans and delegations of authority are reviewed and approved by the Board annually. The revised delegation of authority framework enables the Board to control resource allocation while empowering the managing directors of each business unit to run the business and make decisions to pre-authorised levels.

The Board placed significant attention on project execution and minimising contract losses. The risk committee reviewed major and problematic projects on a quarterly basis. Concerns raised by the committee were communicated to the relevant operating group and a formal close-out of the issue was required. All major bids as prescribed by the tender risk policy were reviewed by the tender risk committee before submission to ensure that appropriate business processes had been followed and that due consideration was given to risks and key commercial terms. A further high-level monthly review is now being implemented by the tender risk committee to focus on changes in costs, commercial claims, margins and any other item of concern on major projects. Issues emanating from peer reviews are brought to the attention of the tender risk committee as and when required.

Additional information is available in the risk section on pages 52 to 54.

The Board's meeting calendar has been adapted to address material issues. Monthly informal board business update sessions have become the forum for the Board to be kept abreast of current issues and address any concerns before they escalate into critical situations. Further, quarterly operating group board meetings have been changed to bi-monthly (every second month) business update meetings that include the operating group executive committees. This was initiated to bolster support to the operating group businesses that have been facing challenges. Executive management is now more keenly aware of material issues in the operating groups and where assistance is required. At these meetings, focus is given to people issues in line with Aveng's belief that a skilled and experienced workforce with a strong talent pipeline is critical to sustainability and securing quality work.

In order to achieve better upward visibility, the Aveng (Africa) and Trident Steel finance and risk committees were dissolved in favour of smaller finance and risk committees at each operating group. Agendas are directed towards compliance and material issues with a clear focus on identifying key risks and agreeing mitigation strategies in support of the Group's strategic goals. Relevant policies are now in place and consistent across the Group.

Given the evolving role of the risk and finance committees, a separate forum (Group Internal Control Forum) was created to focus specifically on internal financial control mechanisms. Objectives are to review and build control systems that:

- are effective at both a corporate office and operating group level
- support the organisation's overall strategy
- are pragmatic in approach
- are measured in response to risk
- are tailored to scale, environment and the nature of the individual business, its people and its processes.

An integrated SAP HR system is being implemented in all the South African business operations to ensure a consistent monitoring and reporting framework. The system will cover around 66% of the Aveng workforce and has been phased in between November 2013 and November 2014. For the non-South African-based operating groups and expatriate employees not on SAP, systems are in place to measure and monitor relevant human resource metrics which are then reported to the corporate office through an integrated business intelligence reporting tool. The SAP Human Capital Management (HCM) project is on track in terms of both cost and timeline.

To ensure that the Aveng Group's directors are clearly and constantly aware of their personal responsibilities and duties, a corporate governance refresher training workshop was held to discuss the JSE regulations and the Companies Act 2008. Two site visits were arranged at Aveng Steel and Aveng Grinaker-LTA. The visit to Aveng Grinaker-LTA enabled the Board to meet the fairly new management team and to review their initial business turnaround plan.

Key challenges and outcomes

Governance is a dynamic and multifaceted arena. It embraces people, roles, structures, and policies and must be equipped to identify, assess, and adapt to changing conditions internally and externally. The Aveng Group operates in a particularly challenging macro environment with a number of acute short term challenges but extremely attractive medium and long-term prospects and opportunities. While the challenges of project execution, compliance and succession planning have been discussed elsewhere in the integrated report, it is appropriate to discuss two issues that have been at the forefront of many of this year's strategic efforts.

The investigation by the Competition Commission intensified an already in-depth systemic overhaul to identify and remediate any transgressions of governance. The Group took a proactive approach to root out historical anti-competitive behaviour across the Group and put in place numerous initiatives including group-wide competition law compliance programmes, appointment policies, dedicated compliance professionals, anonymous tip-off hotlines, pre-bid reviews on contracts and tender bids and third-party due diligence.

The Group's commitment is to continue to drive Aveng's ethics and compliance programmes, including training for all employees in critical roles, and ensuring adherence to the Group's enhanced risk review processes. These specifically include compulsory annual Competition Act training for all managers and employees involved in tendering processes. The Aveng DNA which makes specific provision for addressing ethical conduct is also being reenergised.

The Group's B-BBEE transaction was another key challenge requiring a substantial amount of analysis and planning due to the conclusion on 30 June 2014 of this transaction. This was further impacted by the new BEE Codes of Good Practice being gazetted on 11 October 2013, giving companies one year to transition to the new BEE Scorecard. Advice was taken to ensure ownership, management control and preferential procurement gaps are closed and a roadmap is being developed to ensure the Group achieves its transformation strategic objectives and legal and compliance requirements.

Additional information on the B-BBEE transaction is available on page 49, note 16 of the summarised annual financial statements and the transformation report at www.financialresults.co.za/2014/aveng-integrated-report-2014/sustainability.

Governance context

The Aveng Group's compliance universe was reviewed and through a risk management process, key laws and regulations were identified, assessed and responded to at corporate office level and by each operating group. Senior management of each operating group provided a compliance assurance certification in line with the requirements of King III standards and the Aveng Group compliance framework adopted by the board of directors on 19 February 2014. Management have certified that they discharged their responsibility in establishing and maintaining effective compliance frameworks and processes for the 12 months ended 30 June 2014.

The Board monitors compliance with:

- JSE Limited: The Aveng Group is a public company listed on the JSE Stock Exchange (JSE). The company is subject to, and remains compliant with, the Listings Requirements of the JSE Limited (JSE Listings Requirements). JP Morgan is the company's sponsor and advises the Board on compliance with the JSE Listings Requirements.
- King Report on Corporate Governance for South Africa, 2009 (King III): Compliance with the King III report is a requirement for companies listed on the JSE. As part of its philosophy around leadership, sustainability and corporate citizenship, the Aveng Group applies the recommendations contained in King III and continues to identify areas where applications can be enhanced in the best interest of the company.
  For detailed information on Aveng's compliance to the 75 Principles of King III, refer to www.aveng.co.za/group/compliance-register.
- Companies Act 71 of 2008 (the Act): One of the aims of the new Companies Act is to promote corporate governance and transparency in South African businesses. The Aveng Group has taken the necessary actions to ensure compliance with all relevant provisions of the Act.
- Other South African legislation: The Aveng Group's legal compliance function was established to identify legislation pertinent to the Group, and monitor compliance accordingly.
- SETAs: The Aveng Group operates in several industry sectors and as such it is required to comply with six of the 21 Skills Education Training Authorities (SETAs).
- SAFCEC: The Aveng Group is a member of the South African Federation of Civil Engineering Contractors (SAFCEC) that regulates the relationship between employers, employees and trade unions.

More information on the Group's compliance assurance initiatives can be viewed in the full governance report on www.financialresults.co.za/2014/aveng-integrated-report-2014/corporate-governance.

Governance structure

Aveng takes its strategic direction from the Board of directors. The chief executive and the executive management committee are responsible for overseeing the company's day-to-day operations and implementing the Board's decisions. Day-to-day responsibilities of the Group are delegated to management, under the overall leadership of the chief executive officer, who regularly reports to and interacts with the Board and board committees as well as the managing directors of the operating groups. A delegation of authority framework has been implemented within all operating groups to sub-allocate the accountability of the Board and executive management.

The diversely skilled Board directs the Group's integrated strategy. Smaller, more focused board committees ensure that material issues are quickly and thoroughly addressed. In this way the Board is well poised to support and complement the elements of an effective integrated reporting process. With the strategy being guided centrally, the board committees are agile enough to direct attention to any element of the integrated approach[1].

The Board and each board committee has a formal charter governing their roles, responsibilities, and authority. These terms of reference are reviewed annually and evaluated against criteria set out in the Act and King III.

New directors are required to take part in a formal induction programme immediately after their appointment to the Board. The performance of all directors and the Board as a whole is evaluated annually. At the annual general meeting, one-third of directors are expected to retire by rotation and, if eligible and willing to continue to serve as directors, may offer themselves for re-election by shareholders.

A strong independent component of the Board in the form of its independent directors, ensures that no one individual has unfettered powers of decision-making and authority. The non-executive directors meet independently of executive directors after each board meeting.

[1] *Driven by a central strategy, the board committees are positioned to 'rotate' to address each element of the integrated reporting process.*

Governance structure continued

The Board convenes on a scheduled basis to attend to the requirements of the board work plan. Additional meetings, often full day sessions, are scheduled to consider the Group's strategy and operational business plans. *Ad hoc* meetings are held when required. The following number of meetings were held during the year:

Committee	Number of meetings
Board	6
Audit committee	8
Risk committee	4
Safety, health and environmental committee	4
Social, ethics and transformation committee	4
Remuneration and nomination committee	5
Investment committee	1

Supporting the board of directors, the company secretarial department ensures that there is candid disclosure of material information, systems to ensure that information is readily available, and adequate checks and balances to empower the Board for good decision-making and maximum return on investments.

More information on the Board, its composition, mandate, directors' qualifications and significant directorships can be viewed in the full corporate governance report on www.financialresults.co.za/2014/aveng-integrated-report-2014/corporate-governance. Board committee report backs may also be referenced at this site.

The following table summarises the initiatives of the different board committees in the past year, as viewed from the perspective of the elements of the integrated report.

Key issues	Governance structure / process / procedure	Metrics and actions	Responsible committee or entity
Stakeholder engagement and relationships			
Stakeholder engagement	Stakeholder engagement structure	A formal structure with clear roles and responsibilities and a reporting matrix developed.	Social, ethics and transformation committee
	Employee internal communication	A communication matrix was developed to show various layers of communication and provide clarity in accountability and content.	Social, ethics and transformation committee / management
Employment equity	Director-general's employment equity compliance review	Interventions to close gaps identified by the review and ensure compliance implemented.	Social, ethics and transformation committee
	Three to five-year employment equity plans / BEE roadmap	New plans set and approved at operating group and group level. Preferred procurement workshops held.	Social, ethics and transformation committee
Public safety	Safety, health and environmental committee / integrated report	Submitted annually to social, ethics and transformation committee confirming oversight responsibilities have been performed and necessary measures are in place to ensure public safety in all operations.	Social, ethics and transformation committee and safety, health and environmental committee

Key issues	Governance structure / process / procedure	Metrics and actions	Responsible committee or entity
Risk and opportunities			
Effective identification and assessment of material issues	Risk register	Measure progress achieved on recorded risk mitigation actions.	Risk committee
	Top 10 business risks	Reflects key issues facing the Group, particularly those that affect more than one part of the organisation. Proposed actions and progress are indicated for the relevant operating group to provide a clearer overview of the group-wide risk landscape. A stepping point to more detailed action plans, accountability and progress measurement. Where necessary, bring in expert advisers.	Risk committee
Problematic contracts	Risk registers	Project-specific registers with a feedback loop to bid submission risk registers.	Risk committee
	Project assurance framework	A detailed framework defining the minimum governance requirements from a risk management perspective. Early warning protocols.	Risk committee
Opportunity management	Tender risk assessment and modelling (risk tolerance)	To determine the maximum project size the Group can tolerate. This is not only a financial metric, but also about the skills base and risk profile of the project.	Tender risk committee
Strategy and resource allocation			
Strategy and resource allocation	Organisational model	The Group adjusted to a centre-led facilitation model to contribute to less fixed overhead costs, greater accountability and a leaner, more flexible organisation.	Board / executive committee
	2014 strategic workshop	Identify areas of misalignment between the corporate office and operating groups and clarify the revised business model.	Board / executive committee

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Shareholder information and administration

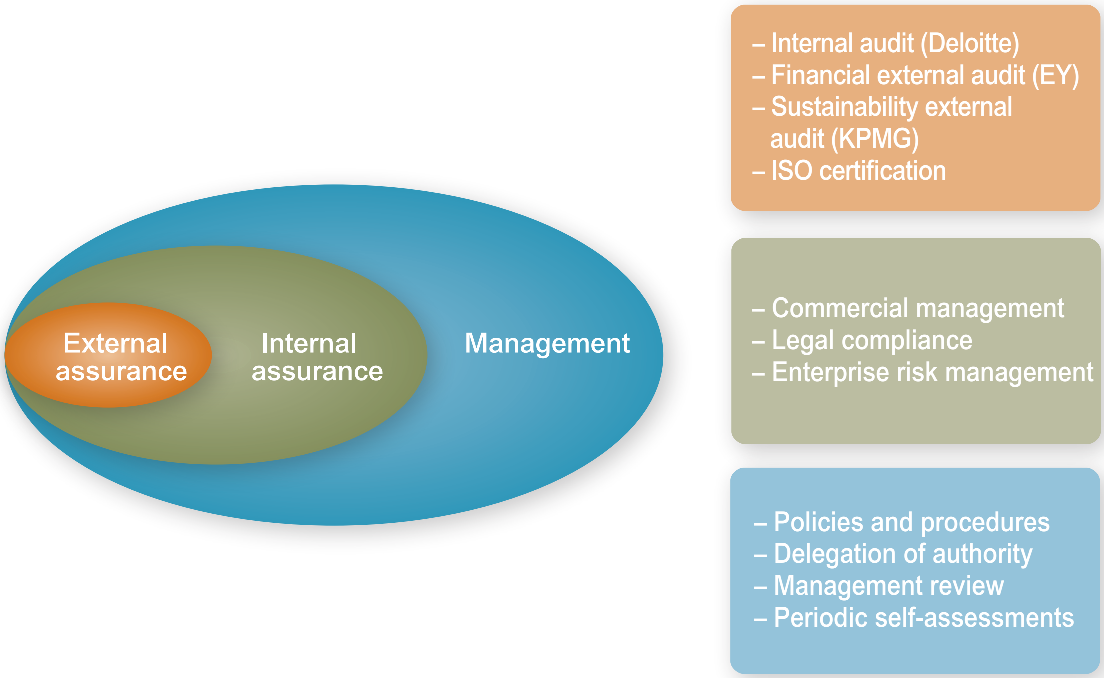
Governance structure continued

Key issues	Governance structure / process / procedure	Metrics and actions	Responsible committee or entity
Performance and outlook			
Aligning performance against strategy	Environmental legal audits	Ensure that sites comply with environmental regulatory requirements.	Safety, health and environmental committee
	2014 strategic workshop	Create a platform to enable the operating groups to implement their strategic objectives in support of the Group's strategic goals.	Board / executive committee
		Establish a high performance culture throughout the Group, aligned to the Aveng DNA.	
		Establish a roadmap to achieve a portfolio of high performance businesses over the medium term.	
Remuneration			
Remuneration policy	Remuneration modelling exercise	Market benchmarks, salary surveys.	Remuneration and nomination committee
Succession plans	Annual succession review	Review of quality of people, identify succession gaps, create growth path for talent pipeline.	Remuneration and nomination committee
	Individual development plans (IDPs)	IDPs being put in place for key talent identified in the succession review process.	Remuneration and nomination committee
Industrial relations climate	Employee and union engagement	SA operations are exposed to risks associated with changes in legislation governing the way temporary employees and labour brokers are managed. Direct communication with employees and unions.	Remuneration and nomination committee
Governance			
Scope	Annual work plans for all committees	Set objectives for the year.	All board committees
Compliance	Regulatory compliance framework	Ensuring effective management of the Group's compliance with applicable laws and consideration of adherence to non-binding rules, codes and standards.	Audit committee
	Delegation of authority framework	Includes established benchmarks and performance indicators to hold management accountable for decisions and actions.	Board
Disputes	Alternate dispute resolution	A formal process for resolving disputes.	Board
Assessments	Annual assessment of the Board and committees	External assessment by means of questionnaire and one-on-one interviews.	iThemba Consulting

Assurance effectiveness

The ultimate aim of the Aveng Group's governance portfolio in the past year was assurance: comfort that the Group was complying with relevant legislation and good practice (compliance); confidence that there were no material control breakdowns (internal and external assurance); assurance that risks were managed (risk management); and a positive assertion that the organisation is operating with integrity and fairness (ethics management). This assurance was further contextualised against the Group's material issues. The diagram below depicts the Aveng Group's combined assurance profile.

Combined assurance providers



In the year under review, the Board took up its collective responsibility for the success of the company, aiming to provide stakeholders with confidence that the Group is being managed ethically, with robust operations that are within prudent risk parameters. The Board is satisfied that for the year under review it has complied with the terms of its charter.

Remuneration policy

Introduction

This document sets out the Aveng Group's remuneration policy. Due to remuneration governance standards, the bulk of this policy addresses the remuneration of senior management. The application of the Group's remuneration policy is summarised in the remuneration report on page 115 and where remuneration and nomination committee discretion is exercised in implementing this policy, this is highlighted in the remuneration report.

Remuneration philosophy statement

The Aveng Group is a multidisciplinary construction and engineering group, anchored in South Africa, with expertise in a number of geographies and market sectors, namely power, mining, infrastructure, commercial, industrial, and oil and gas. The Group has a broad footprint in all these market sectors and one of the core principles of its business strategy is diversification to ensure sustained growth notwithstanding the industry cycles. The industry is known to be a tough and volatile one with many challenges in delivering value to shareholders. A key component of success within the industry lies in aligning the Group's business strategy with its people strategy. Aveng recognises the importance of investing in its people and strives to ensure that the Group remains competitive in the market and retains and incentivises the key people required to deliver its business strategy. Therefore, the Group is committed to developing and implementing effective remuneration strategies and practices to attract, retain and reward employees commensurate to performance deliverables. The strategic outcomes sought to be achieved through the remuneration philosophy and remuneration policy includes rewarding superior performance and penalising poor performance, as well as aligning management's total remuneration with increased shareholder value.

Remuneration strategy	Remuneration design offering
The Aveng Group's pay strategy is based on the following core principles: — A robust and universal job grading system, which renders accurate job grading results for benchmarking purposes. — Regular remuneration benchmarking for all grades against the general market and the construction, engineering and mining industries using independent salary surveys. Development of market-related pay scales by grade. — The existence of a comprehensive performance management system and a coaching for performance culture, including performance contracts and regular performance assessments. — Compliance with all remuneration governance regulations and applicable legislation. — A clear remuneration structure, comprising guaranteed pay, short, medium and long term incentive plans. — Incentive pools shaped by Group and operating segment profitability with no excessive risk taking and an approach of sustainable future profitability. — Transparency to enable shareholders and other stakeholders to make reasonable assessments of remuneration practices of the Group and underlying governance processes.	In this regard, the Aveng Group's remuneration offering is designed to: — provide an appropriate mix of guaranteed pay and short, medium and long term incentives to attract, retain and incentivise employees; — ensure that the pay mix supports the Group's business strategy of striving for outperformance and that on-target earning potentials are directly linked to performance and designed to promote the development of a high performance culture; — be consistent with and is aligned to the vision, mission, values and business objectives (both short term and long term) of the Group; — pursue the best interests of the Group, its shareholders, and its broad internal and external stakeholder base; — achieve the motivational impact required to deliver the Group's business strategy and growth targets and promote the desired behaviour, without encouraging excessive risk taking by management; — be fair, equitable, market-related and affordable; — recognise and reward exceptional performance while penalising mediocre or poor performance; and — articulate an attractive and compelling value proposition for current and prospective employees.

Remuneration practices and remuneration governance

The remuneration and nomination committee (the committee) has been established by the board of directors of Aveng in accordance with the company's memorandum of incorporation.

Remit of the committee	To assist the Board with the adoption of remuneration policies and practices which are aligned to the Group's business strategy so as to create sustainable value and growth over the long term for shareholders and other stakeholders.
Terms of reference	The committee is governed by a formal charter which is aligned to the principles of King III and the Companies Act 71 of 2008, and provides for the following: — ensures that the remuneration policy promotes the achievement of the Group's strategic objectives and encourages individual performance; — assists the Board to ensure that executive directors, senior executives and prescribed officers of the Group are remunerated on a fair, responsible and competitive basis and in line with approved performance targets; — ensures that an adequate performance management system is operational throughout the Group, which aligns with the objectives of the short, medium and long term incentive schemes based on the Group's approved business strategy; — ensures that all forms of remuneration and incentivisation across the Group are performance related; — ensures that an adequate, formal succession plan exists throughout the Group; — approves senior executive appointments and commensurate remuneration; and — reviews the structure, size and composition of the Board annually to ensure that the Board is able to execute its duties effectively and conduct an evaluation of the performance of the Board, chairman and various board committees.
Guiding principles	The committee has determined that the following core principles underpin the Group's remuneration philosophy and are essential in order for the Group to deliver its business strategy: — The existence of a reputable, robust job grading system, with appropriate governance principles. — A market-related reward strategy and principles supporting this cascaded down to operational cluster level. — The provision of an appropriate total cost-to-company package for employees which includes fringe benefits, retirement plans, and medical and risk benefits. — Appropriate incentive schemes, that are now standardised across the Group, which encourage value creation for shareholders, but do not encourage excessive risk taking by executives and prescribed officers. — The existence of a performance culture, and a performance management process across the Group, where individual goals congruent with the Group strategy are established, and performance is evaluated and linked to annual pay increase and incentive bonus awards. — A rigorous Group-wide succession review process on all critical positions in the top three levels of the organisation takes place each year.
Internal input	The meetings of the committee are attended by the chief executive officer and the group executive director on an *ex-officio* basis. Executives are not present when their remuneration is considered by the committee. The chairman of the committee provides the Board with a verbal report of the committee's activities at each board meeting.

Remuneration policy continued

Discretion

Aveng's approach to remuneration is primarily geared towards ensuring continuous and consistent alignment of employee behaviour with stakeholder value creation. It therefore provides the committee with a reasonable degree of flexibility to review the Group's remuneration policy in light of changes in the Group's business strategy, trading conditions and economic climate, to ensure that such policy achieves value creation for shareholders and other stakeholders.

Therefore, the Group's remuneration policy and incentive schemes are subject to annual review by the committee. The committee monitors the governance of all incentive schemes. Any variance or deviation from this policy can only be approved by the committee.

The committee has discretion, when warranted by exceptional circumstances and / or where considerable value has been created for shareholders and other stakeholders of Aveng by specific key senior executives, to award special bonuses or *ex-gratia* payments to such individuals. In exercising this discretion, the committee members must satisfy themselves that such payments are fair and reasonable, and are disclosed to shareholders as required by remuneration governance principles.

Succession review

The Group conducts a thorough group-wide succession review in February / March each year. This review includes:

— reviewing the top three management levels of the Group, as well as the group support functions;
— identifying succession risks and the necessary mitigation plans;
— reviewing identified emergency, short, medium and longer-term successors to all critical senior roles;
— ensuring that the succession plans address the company's transformation objectives; and
— reviewing identified emerging talent and ensuring that the necessary personal development plans are implemented.

Remuneration structure

Aveng's remuneration structure provides for guaranteed and variable remuneration components. The guaranteed component comprises employees' total cost of employment (TCOE) or guaranteed pay. The variable pay portion is driven by both company and individual performance and the quantum varies year to year. The different components are summarised below.

Guaranteed remuneration

Instrument	Cash plus benefits
Philosophy and business objective	The Group's guaranteed pay philosophy is to pay at the median of the market for full competency and expected performance, while allowing for performance-based differentiation, and is designed to attract and retain employees in line with the scope, nature and skills requirements of the role. The Group's pay philosophy is also designed to reward superior performance through short, medium and long term incentive schemes at a higher percentile than the median.
Policy	As a general rule guaranteed pay is benchmarked to the 50th percentile to the market, relative to skill, experience and performance. When setting and reviewing the guaranteed pay policy, various factors, including the following, are taken into account: — Market pay trends, including benchmarking against the specific industries within which the Group operates. — Macro-economic factors such as inflation, market increase projections and salary movement within the market. — Movement in costs of particular benefits. — Group performance and affordability. — The need to ensure that executive pay is performance-based and is aligned to company financial performance as well as the individual's performance relative to his / her performance objectives.

Instrument	Cash plus benefits
Annual remuneration review process	Guaranteed pay is reviewed annually in January. A pay increase mandate supported by salary surveys, projected salary movements, inflation, company performance and affordability, is reviewed by the committee and recommended to the Board for approval. The approved mandate is communicated and implemented by management. Individual performance as per the employee's performance contract is assessed and rated, and this together with the employee's compa-ratio to the relevant market median, informs a salary increase recommendation. This process ensures internal and external parity. Following the implementation of the annual salary review, the committee reviews the implementation to establish: — whether the overall increases implemented remained within the approved mandate; — the overall increase in the cost of labour as a result of this adjustment; and — that there was a sufficient link to performance in the manner in which the increases have been implemented.
Medical aid cover	The Group facilitates the provision of medical aid for employees and their families, and salaried employees are required to be members of the company-nominated medical schemes. Contributions are funded from the employees' total guaranteed pay (TGP).
Retirement contributions	These contributions ensure that employees have appropriate savings for their retirement. Provident fund contribution percentage options are 6%, 7,5%, 9%, 10,5% or 12%. This is an employer contribution and funded from the employees' TGP earnings. Pension fund contribution percentage options are either 6% or 7,5%. This is an employee contribution and funded as a deduction from take-home pay.
Group life and insured benefits	These benefits provide insurance for employees and their dependants in the event of disability, death, critical illness, etc.

Performance link to pay

The Group's annual business plan is based on and informed by the Group's business and growth strategy. This plan informs the budget from which the key performance indicators (KPIs) (financial and non-financial) are derived. These KPIs are incorporated into the annual performance contract of the chief executive officer, who in turn cascades these KPIs into the performance contracts of the individual executive directors and managing directors. Performance against KPIs in performance contracts is assessed at least bi-annually, but in most cases quarterly, and the internal management reporting system is designed to clearly identify progress and achievement on a quarterly basis.

The Group's performance management measurement system determines the performance rating for both businesses and individuals. The individual's performance rating is used in determining both annual salary increases and the level of short, medium and long term incentives awarded. Capable and skilled employees who demonstrate performance at a competent level are remunerated around the market median for their role. Poor performers (with a performance rating of 1) do not receive any incentives or annual increases.

KPI assessment rating

Definition	Performance rating
Exceeded all expectations	5
Above average – met all and exceeded some expectations	4
On target – met all expectations	3
Below average – met some but not all performance expectations Needs improvement	2
Poor performance – failed to meet performance expectations	1

Remuneration policy continued

Aligning risk and reward

The variable remuneration schemes align with Aveng's risk appetite and are designed to influence managers to achieve sustainable growth without taking excessive risk.

Variable remuneration (at risk)

The Group currently has the following incentive schemes which are applicable to eligible salaried employees:

— Short term incentive (STI)
— Medium term incentive (MTI)
— Long term incentive (LTI)

The remuneration policy provides for short, medium and long term incentive schemes. All value derived from these incentives are linked to and based on the outcomes of the Group's performance management process. Eligibility is based on grade, performance and talent mapping. The incentive schemes are designed to reward both individual performance and the achievement of business financial targets. The weighting in respect of the financial and individual performance targets is currently split on a 70 / 30 basis.

Short and medium term incentive bonuses awarded are calculated as a percentage of total actual guaranteed remuneration and percentages awarded are grade-specific and aligned to relevant best-practice market benchmarks. The bonus provision for the financial component of the incentive accrues on the basis of the self-funding principle and only accrues once threshold financial performance has been met. Threshold performance is currently set at 80% of the financial performance target. The bonus quantum is calculated on a linear accrual basis and capped at stretch earnings potential.

Financial targets are set annually at the beginning of the financial year, based on the targets agreed by the Board. The key financial measures are currently headline earnings, operating free cash flow before capital expenditure (capex) and return on equity. An individual will be partly measured on their individual performance (as agreed in terms of their performance contract at the beginning of the financial year) and partly on the financial performance of the team they work in. Individual KPI targets are set in accordance with the Group's key priorities, eg safety, health and environment, transformation, achievement of key human resource targets, turnaround of poor performing projects, recovery of claims, etc. The total bonus quantum of the STI, MTI and LTI awards to individual Aveng executives (top three reporting levels) are approved by the committee. Similarly, any exceptions to the bonus scheme rules are also approved by the committee.

Other than the individual KPI portion of the STI and MTI, no bonuses will be payable in the event that a business entity does not achieve at least 80% of its financial target. In addition, operating free cash flow, which is the gatekeeper for this financial year, must be achieved prior to any financial component of the STI or MTI payment being made.

In the event that the Group or particular operating group or business unit has suffered a financial loss or is in a negative operating free cash flow (excluding expansion capital investment) position, payment of 30% of the bonus attributable to individual KPIs shall as a general rule be forfeited. The committee may at its discretion approve a reduced percentage award to selected individuals if special circumstances prevail.

To ensure that employees are not unduly remunerated for unsustainable short-term results, the Group introduced a 'claw-back' provision relating to the MTI scheme. In light of payments being made over a three-year period, a 'claw-back' will be triggered resulting in deferred payments due to employees in future being forfeited by affected participants under the following circumstances:

— In the event that a material negative misstatement of the financial results of Aveng or any of its subsidiaries is subsequently detected; or
— In the event that significant adverse legal and / or findings are substantially made in terms of the Competition Act 1998 (Act 89 of 1998 as amended or any successor thereto), or any other material transgression against Aveng in which the participant is found to have had some culpability.

Invocation of the 'claw-back' provision under the circumstances laid out above, as well as the quantum thereof, shall be at the committee's discretion.

Upon the successful invocation of the 'claw-back' provision:
— the repayment will be made on a pre-tax basis and it will be the responsibility of the affected individual to claim a deduction upon assessment from SARS; and
— 'claw-backs' in the event of misstatement shall only apply to payments made on the basis of performance for that year.

Earnings potentials
The maximum potential bonus award for STI and MTI is capped at the stretch level. The threshold, on-target and stretch targets for the financial measures are as follows:

Financial measures	Threshold	On-target	Stretch
Headline earnings (%)	80	100	139
Operating free cash flow excluding expansion capital expenditure (%)	80	100	139
Return on equity (%)	80	100	139

Weighing of STI and MTI measures
The financial measures and weightings used for the chief executive officer and executive directors are:

2013 / 2014 Aveng STI and MTI measures

Financial measure*	Weightings %
Aveng headline earnings	23
Return on equity	23
Operating free cash flow	24
Total financial	**70**
Individual KPI For example: — safety performance; — achieving transformation targets; — attraction and retention of key talent; and — turnaround of poor performing projects.	
Total non-financial	**30**

**Allocations and weightings applicable to the 2014 / 2015 policy. Differs from the weightings applied in 2013 / 2014 as described in the remuneration report on page 115.*

Remuneration policy continued

1 Short term incentive (STI) design principles

Instrument	Cash bonus paid in October based on the preceding financial year results.
Philosophy and business objective	Rewards and incentivises achievement of individual operating group, business unit and group financial performance.
Policy	Measured against specific performance metrics and subject to threshold achievement.
Duration	One year.
Eligibility	All permanent salaried employees. Excludes employees already participating on site, project or any other bonus scheme.
Non-financial performance measures 30%	Individual performance measures, for example: — safety targets; — transformation targets; — attraction and retention of key talent; and — turnaround of poor-performing projects.
Financial performance measures 70%	Aveng Group, operating group and business unit financial measures.
Method to determine award	Calculations are based on a formulae on ATP (actual total package for the relevant financial year) grade percentages, and the actual result against the target.
Involuntary terminations: retirement or retrenchment	Award will be discretionary and will be pro-rated.
Voluntary terminations	Resignation – the employee forfeits the STI award for the previous financial year if they are not in service on 25 October when the award is paid out. Dismissal – employee automatically forfeits award.

2 Medium term incentive (MTI) design principles

Instrument	Cash bonus awarded in October based on the preceding financial year results. One-third paid in each subsequent March over three years. Each tranche value is increased by the annual increase percentage award in that year.
Philosophy and business objective	Rewards and incentivises achievement of individual, operating group and group performance on a sustainable basis and is a retention mechanism for senior management and key business skills. The purpose of the MTI scheme is to incentivise employees to deliver sustainable financial performance over the medium term and also provides a form of retention, as its value accumulates over time.

2 Medium term incentive (MTI) design principles continued

Policy	Measured against specific performance metrics and subject to threshold achievement. For purpose of benchmarking total reward against best practice in the market, the MTI and LTI scheme values are combined. The combined quantum equates to the equivalent level of market-related LTIs for the particular grade.
Duration	Paid over three years.
Eligibility	— Only executives and senior management. — Subject to an employee achieving an on-target or higher performance rating. — Employees who are due to reach retirement within a year of the award date will not be eligible for an MTI award but may be considered for a project / assignment completion bonus.
Non-financial performance measures 30%	Individual performance measures, for example: — safety targets; — transformation targets; — attraction and retention of key talent; — turnaround of poor-performing projects.
Financial performance measures 70%	Aveng Group, operating group and business unit financial measures.
Method to determine award	Calculations are based on a formulae on ATP (actual total package for the relevant financial year) grade percentages, and the actual result against the target.
Involuntary terminations: retirement or retrenchment	Any accrued balance will be paid in the event of retirement or retrenchment.
Voluntary terminations	Resignation – the employee forfeits the MTI payment due for the previous financial year(s) if they are not in service on 25 March. Dismissal – employee forfeits total accrued value.
'Claw-back' provision	Can be invoked by the committee under the following circumstances: — In the event that a material misstatement of the financial statements of Aveng or its subsidiary companies is detected; or — In the event of significant adverse legal and / or findings made in terms of the Competition Act 1998 (Act 89 of 1998 as amended or any successor thereto) against Aveng in which the participant is found to have had some culpability. Invocation of the 'claw-back', as well as the quantum thereof is at the discretion of the committee.

Remuneration policy continued

3 Long term incentive (LTI) design principles

The LTI (comprising two types of instruments, namely Aveng Limited Share Appreciation Rights Plan (SAR Plan) and the Aveng Limited Forfeitable Share Plan (FSP)). These incentive plans are designed to align Aveng senior executives' performance with the interests of shareholders and other stakeholders, to enable them to share in the long term growth of the business, and to retain critical leadership talent required to implement the Group's business strategy.

3.1 Share Appreciation Rights (SARs)

Instrument	SARs are 'phantom shares' which mimic the performance of the Aveng share price, but are payable as a cash award, subject to the achievement of performance conditions: — Value is determined by the share price growth between award and exercise dates.
Philosophy and business objective	The purpose of this plan is to provide senior executives and other nominated key individuals with the opportunity of receiving a reward based on the increase in the value of the share price between grant date and exercise date. Incentivisation for performance: — Specific attraction and retention of critical / unique skills
Life span of award	Seven years.
Eligibility	Only executives and top management as they are responsible for long term value creation. Subject to an employee achieving on-target or higher performance rating. Employee should not be less than three years away from retirement.
Method to determine award	The policy for determining the annual SARs award is actual total package earned in a particular financial year multiplied by the applicable percentage set per grade. In determining the quantum of the annual SARs award, the value of the unvested SARs is taken into account. In addition the applicable multiple of guaranteed pay for each grade is also considered.
Award governance	Pertinent rules applicable to the award of SARs are: — No award of SARs will be made in a closed period. — No annual award is made to a participant who is within 36 months of normal retirement age. — Performance conditions, which must be met in order for the SAR to vest, are approved by the Board. Performance conditions are reviewed on an annual basis. — The granting of SARs, as well as the number of SARs granted, is at the sole discretion of the committee. — The annual award of SARs is made in September / October. Provision has also been made for SARs to be awarded in March / April to cater for recent executive appointments.

3 Long term incentive (LTI) design principles continued

3.1 *Share Appreciation Rights (SARs)* continued

Dilution	A quasi (internal company) dilution limit has been imposed and the total number of unvested SARs issued will not exceed 10% of the issued share capital of the Group. No one individual may be awarded the equivalent of more than 1% of issued share capital.
Vesting	— SARs will vest in equal tranches over three years, with the first tranche vesting at the end of year three, provided the performance conditions as set by the committee have been met. In the event that the performance condition has not been met for any of the performance periods, the grant will lapse. — Vesting will occur on a proportionate linear sliding scale basis in accordance with the pre-determined formula between threshold and target. — 50% will vest at 80% achievement of on-target level. 100% will vest at on-target levels or higher. Once the SARs vest and the performance condition has been met, the participants will be able to exercise the portion of SARs which have vested before the expiry of the SARs, which is seven years after the award date, and realise the gain from the appreciation in the share price. Following the exercise of the SARs, the benefit will be paid to the participant in cash. The participant has no right to receive any shares by virtue of participation in this plan. The plan allows for regular and consistent granting of awards on an annual basis. The granting of SARs under the plan must occur within the prescribed timeframes and the plan does not provide for issue of SARS at a discount, repricing or regranting. SARs lapse at the end of seven years, or when the performance condition is not met. The scheme has been designed to avoid 'all or nothing' vesting profile by providing for annual grants and linear vesting.
Exercise	Once SARs vest and the performance condition has been met – participants may exercise the portion that is due to vest, within seven years from award date.
Performance condition	The current performance conditions are measured over a three-year performance period and require that the Group meets or exceeds a combination of ROIC, operating free cash flow and headline earnings growth, compared to the weighted average of a peer group of comparable companies. The weighting of the performance conditions is as follows:

Measures	Weightings %
ROIC	50
Operating free cash flow per share	25
Headline earnings growth (relative to the construction industry index)	25

Remuneration policy continued

3 Long term incentive (LTI) design principles continued

3.1 Share Appreciation Rights (SARs) continued

Other criteria relating to the performance conditions are:
- there will be threshold and target performance levels set for each performance measure;
- vesting shall occur on a linear basis between threshold and target performance;
- the construction industry Index is based upon the following comparator group of companies:
  - Murray & Roberts
  - Group Five
  - WBHO
  - Basil Read
  - Stefanutti Stocks
  - Raubex

The above measures are defined as follows:

Criteria	Formula
ROIC	$\frac{\text{Net operating profit – adjusted taxes}}{\text{Property, plant and equipment + current assets – current liabilities}}$
OFCF per share	$\frac{\text{(Operating cash flow – capex + proceeds on disposal of PPE*)}}{\text{Number of shares}}$
Headline earnings growth (relative to industry index)	Aveng headline earnings ≥ construction industry index performance

** Property, plant and equipment.*

Involuntary terminations: retrenchment or retirement
- All vested, unexercised SARs can be exercised within a 12-month period of termination.
- All unvested SARs shall vest *pro rata* on time served between grant date and vesting date to the extent that the performance condition has been met.
- If termination occurs any time before the performance conditions are tested, unvested SARs are forfeited.
- Vested SARs not exercised after 12 months of termination will lapse.

Voluntary termination: resignation
- All unvested SARs will lapse.
- All unexercised vested SARs must be exercised with two months from termination date subject to the performance condition being met.

Voluntary termination: dismissal
- All unvested SARs will lapse.
- All unexercised, vested SARs will be forfeited.

Other terminations and exceptional circumstances

Subject to the remuneration and nomination committee determining otherwise, in its absolute discretion, if the participant ceases to be in the employment of the company before the end of the vesting period for any other reason, a portion of his / her award shall vest on the date of termination of employment or as soon as reasonably practicable thereafter.

3 Long term incentive (LTI) design principles continued

3.2 *Forfeitable Share Plan*

Instrument	Shares bought on the open market to be awarded to participants upon vesting.
Philosophy and business objective	The purpose of this incentive plan is to enable the Group to award forfeitable shares to a small number of critical senior executives and / or key talent. The rules provide for the award of performance shares or retention shares. In accordance with best practice, the performance shares are subject to the meeting of financial performance conditions for vesting as well as continued employment for the duration of the vesting period. The forward looking award policy for the FSP is that the majority of awards should be subject to performance conditions for vesting, in line with the Group's approach of performance-related incentives. However, in specific *ad hoc* instances where the committee seeks to retain key talent instrumental in delivering the Group's business strategy, forfeitable shares only subject to continued employment over a predetermined period may also be awarded.
Life span of award	Three years.
Eligibility	Any critical senior executive and / or key talent, including executive directors, but excluding non-executive directors, within the Group may become a participant of the FSP. Participants will be nominated by the committee at its sole discretion and be allocated Aveng Limited shares. All the rights accruing to the shares, including dividends, will be for the benefit of the participant. An employee who accepts or is deemed to have accepted an award of a specified number of shares made to him or her in terms of the FSP becomes a participant as defined in the plan rules.
Allocation	Allocation is at the discretion of the committee and in accordance with the individual limits set in the rules.
Dilution	The awarding of forfeitable shares will have no dilutionary effect on the Group's issued share capital as the shares will be purchased in the market. A quasi (internal company) dilution limit exists and the amount of shares that may be allocated in terms of the FSP is limited to 1% of issued share capital in total, or 0,2% of issued share capital for any individual participant.
Exercise	After the award is made, the shares shall be held in escrow by an agent for the benefit of the participant. The shares may not be disposed of or otherwise encumbered except in the event of death of the participant in which instance the shares may be transferred to the executor of such participant's estate. The rules of the FSP stipulate the procedure applicable for the vesting or lapse of forfeitable shares in the event of early termination of employment by participants. The rules also state that participation in the FSP is not an entitlement, is at the sole discretion of the committee, and that the design and rules can be amended at the discretion of the Board, subject to the required shareholder and JSE approvals (where applicable).
Performance condition	As with the SAR, the performance shares awarded in terms of the FSP are subject to a performance condition for vesting. The performance condition is reviewed annually, taking into account the operating environment and strategic business drivers. The performance condition currently applicable to the FSP is headline earnings growth (relative to industry index). The performance condition target which must be met in order for the FS to vest is approved by the Board. The performance condition is measured over a three year period.
Vesting	Vesting will occur on a proportionate linear sliding scale basis in accordance with the pre-determined formula between threshold and target. 50% will vest at 80% achievement of on-target level. 100% will vest at on-target levels or higher.

Remuneration policy continued

3 Long term incentive (LTI) design principles continued

3.2 *Forfeitable Share Plan* continued

Termination provisions

Resignation or dismissal – 'Bad leaver' provision	If a participant's employment is terminated prior to the vesting date by reason of his / her resignation or dismissal on grounds of misconduct, proven poor performance or proven dishonest or fraudulent conduct, his / her award will be forfeited in its entirety and will lapse immediately on the date of termination of employment.
Death, retrenchment, retirement, ill health, injury, disability and sale of employer company – 'Good leaver' provision	If a participant's employment terminates prior to the vesting date by reason of death, retrenchment, retirement, ill health, injury or disability, a portion of his / her award shall vest on the date of termination of employment on a *pro rata* basis and on condition that the performance condition has been satisfied.
Other terminations and exceptional circumstances	Subject to the remuneration and nomination committee determining otherwise, in its absolute discretion, if the participant ceases to be in the employment of the company before the end of the vesting period for any other reason, a portion of his / her award shall vest on the date of termination of employment or as soon as reasonably practicable thereafter.

Glossary of financial terms used

Headline earnings
As defined by the relevant SAICA circular and JSE Listings Requirements.

Return on equity
Headline earnings as defined, divided by the sum of share capital, distributable and non-distributable reserves, and adjusted by non-controlling interests.

Operating free cash flow
OFCF is defined as the sum of cash generated or utilised from operating activities, and cash generated or utilised from investing activities, as defined by the IFRS statement on cash flows.

Policy on terms of service on employment contracts and severance arrangements

Executives and prescribed officers

The termination condition of executives and prescribed officers is three months' notice and no protection is provided in the event of an unsolicited takeover.

The company's normal retirement age, excluding McConnell Dowell employees for which in terms of Australian labour legislation, where there is no retirement age for employees, is 60 years. However, the Group has a policy in place to extend employment of selected individuals with critical or scarce skills beyond the normal retirement age on the same terms and conditions. Such extension is at the sole discretion of the company.

Despite this not yet being common practice in South Africa and not being a requirement of the King III report, Aveng executive directors have historically retired by rotation every three years and present themselves for re-election at the company's annual general meeting. This practice shall continue.

While no specific provision is made for termination bonuses, the committee is given some discretion by the various incentive scheme rules to consider in the case of other terminations and exceptional circumstances.

The rules of the LTI do not provide for automatic vesting of unvested LTI awards in the event of change of control. Deferred remuneration is forfeited in the event of termination where employees are terminated based on fault termination (ie resignation, misconduct, underperformance, etc). For early termination of employment the vesting profile is determined in terms of the approved SAR and FSP rules.

Non-executive directors

— Non-executive directors are appointed by the shareholders at the AGM.
— Where a non-executive director holds office for longer than nine years, the independence of that director will be subject to a review by the Board and a statement to that effect will be included in the Integrated Report.
— The Committee shall consider the continuation (or not) in service of any non-executive director who has reached the age of 65. Non-executive directors must retire from the board by the age of 70. Notwithstanding this provision, executive directors are also subject to the retirement by rotation process as provided for in the memorandum of incorporation.

Non-executive director fees

On an annual basis, management submits to the committee a proposal for the review of non-executive director fees. This proposal includes benchmarks from a minimum of two non-executive director remuneration surveys, as well as extracts and benchmarking data from annual reports of at least five medium businesses within the same industry sector. A comparison of the current and proposed fees against the market surveys and benchmarks informs the appropriate fee recommended by management. The services of independent remuneration consultants may also be used to obtain independent benchmarks for non-executive directors' fees.

This recommended fee, upon review by the board, is submitted to the AGM for approval by shareholders in terms of the Companies Act.

Remuneration report

Introduction

This report focuses on remuneration-related activities undertaken during the 2014 financial year and highlights the application of the policy in respect of executive directors, prescribed officers and permanent salaried employees. Aveng is committed to complying with sound remuneration governance and applicable legislation, the Johannesburg Stock Exchange Listings Requirements and the Code of Good Governance for South Africa 2009 (King III). In order to aid transparent and concise disclosure, this report relates only to remuneration activities and outcomes for the financial year under review, by illustrating how the remuneration policy was implemented.

The full remuneration policy and philosophy can be found in the Integrated Report, refer to page 102.

Remuneration governance 2013 / 2014	
Remit	Assist the Board to adopt remuneration policies and practices which are aligned to the Group's business strategy to create sustainable value and growth over the long term for shareholders and other stakeholders.
Number of meetings	Five meetings of the committee were held during the 2013 / 2014 financial year.
External advisers	During the 2013 / 2014 financial year the following external advisers were used: — PwC assisted the committee in reviewing and proposing changes to the incentive scheme design principles as well as with executive and non-executive director remuneration benchmarking against the market. — PE Corporate Services provided benchmarking on executive pay. — Marsh & McLennan (formerly Mercer) provided total pay executive benchmarking data for the Australian market including incentive schemes.
Internal input	The chief executive officer and the group executive director attend the committee meetings as invitees. Executives are, however, not present when their remuneration is considered by the Board. The chairman of the committee provides the Board with a verbal report of the committee's activities at each board meeting.

Key remuneration focus areas in 2013 / 2014

	Remuneration activities / actions	Outcomes
1	Implemented a revised remuneration policy with effect from 1 July 2013	Approved by shareholders with a 91% favourable vote
2	Setting of financial measures and targets for the various incentive schemes	The committee recommended to the Board for approval financial measures together with targets for the various incentive plans as highlighted hereunder: **STI and MTI Schemes** **Measure*** — **Weightings** Headline earnings — 24% Operating free cash flow — 23% Return on equity — 23% **SAR Scheme** **Measure** — **Weightings** Return on invested capital (ROIC) — 50% Operating free cash flow per share — 25% Headline earnings growth (relative to the construction industry index, excluding PPC) — 25% **FSP Plan**** Return on equity — 100%

* *Refer to footnote on page 107 relating to the remuneration policy.*
** *Return on equity applied for the 2013/2014 financial year. Differs to the remuneration policy applicable for 2014/2015 financial year.*

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Salient features
Group performance review and outlook
Material issues
Strategy
Operational review
Corporate governance
Remuneration
Shareholder information and administration

Remuneration report continued

3	Reviewing the provision which allowed for retesting of the performance condition in respect of the Share Appreciation Rights Plan.	In accordance with good governance, the previous policy was amended to delete the provision which allowed for the Share Appreciation Rights' performance condition to be retested on the third and / or fourth anniversary if it had not been achieved.
4	Performance condition for Forfeitable Share Plan	In accordance with good governance, the previous policy was amended to include a performance condition for the forfeitable share plan.
5	Executive and non-executive total pay benchmarking against the market, review and approval of executives' remuneration	Independent consultant benchmarked the 2014 total packages of Aveng executives against peer group companies (companies of similar size and industry) and the general market and approved executive remuneration on the basis of that review.
6	Annual remuneration review for the Group	Annual increase mandate and its application relative to performance reviewed and approved and implemented within the mandate.
7	Awarding of incentive awards, namely short-term, medium-term and long-term incentives based on market benchmarks	Incentive awards reviewed relative to individual and company performance and market benchmarks and approved.
8	Monitoring performance management roll-out and ensuring that all remuneration elements are linked to performance	Performance contracting and reviewing by operating group monitored by the committee quarterly. Annual increases and incentive payments reviewed against performance measures and approved.
9	Confirmation of performance conditions and targets for Share Appreciation Rights (SAR) plan and Forfeitable Share Plan (FSP)	Approved by the Board on recommendation of the committee.
10	Review of formal succession plan for executive and senior / critical positions	Group-wide succession plans reviewed by the committee in March.
11	Reviewed composition of the Board and tenure of executive and non-executive directors	Board composition reviewed and two new independent non-executive directors appointed to replace two outgoing directors and allocated to relevant committees. New committee chairpersons appointed to replace outgoing directors.
12	Appointment / termination of senior executives	Committee reviewed and approved all senior executive appointments and terminations.

Performance measurement

The Group's performance management process determines the relative level of performance of both businesses and individuals. One of the key considerations to be taken into account when an employee's salary is being reviewed is their performance rating. This rating is used in determining both annual salary increases and incentive awards.

Key performance indicator	Measured	Deliverables 2013 / 2014
Health and safety	Zero fatalities	Unfortunately the Group experienced four fatalities. Three were at Aveng Grinaker-LTA and one at McConnell Dowell. For the period under review this will result in a mandatory 5% reduction in the non-financial portion of the short-term and medium-term incentives and will be applied from MD of the affected business down to the direct line manager and safety officer / manager for that site. The non-financial component currently comprises 30% of the total bonus and will therefore be reduced to 25% for the affected individuals if all other KPIs have been achieved.
Achieving transformation targets	B-BBEE targets set by the Board and compliance with the Employment Equity Act	The applicable weighting of the non-financial component of the bonus will be impacted depending on the level of achievement of the specific transformation target set for the individual manager. The Group achieved an overall level 3 rating for the period under review.
Attraction and retention of key skills	<5% of key / critical staff	The Group experienced an actual turnover of less than 5% for key / critical staff.
Succession review	Identification of successors for key / critical positions in top three levels of management	Group-wide succession audit undertaken with 58% emergency replacements identified, 45% coverage for nil to two-year readiness and 55% coverage for two to four-year readiness.

Total remuneration design

Aveng aims to reward executive directors and management with performance-based variable pay that has both a short term cash component, a deferred remuneration component (medium term incentive) and two long term incentive plans. The variable pay will, depending on the role, function and responsibility of the executive director, prescribed officer or senior manager, constitute between 40% and 60% of the total remuneration of that executive director, prescribed officer or senior manager. The Group ensures that its pay mix reflects its culture of high performance by placing a large component of remuneration 'at risk' in the form of variable pay. The pay mix has been designed to place the Group in a competitive position to attract and retain key talent, while incentivising managers to deliver sustained value for all stakeholders.

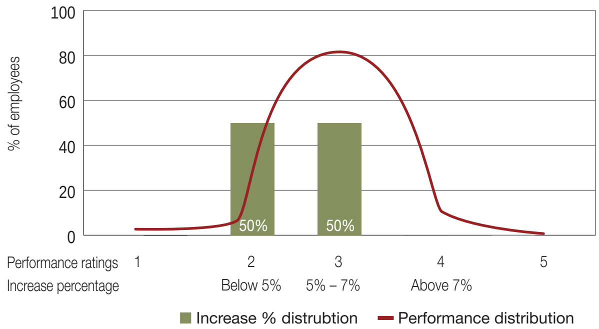
Guaranteed pay – 2014 (refer to remuneration policy for more detail)

The 2014 salary increase approved by the committee and implemented on 1 January 2014 was aligned with the January 2014 CPI of 5,8%. An equity-based adjustment increase was approved to address historical internal equity and external parity considerations. The 2014 guaranteed packages of the top three executives were benchmarked against peer group companies and the general market by an independent consultant and the results showed the Group's executives were paid competitively. The performance and awards for the senior executives were reviewed and approved by the committee.

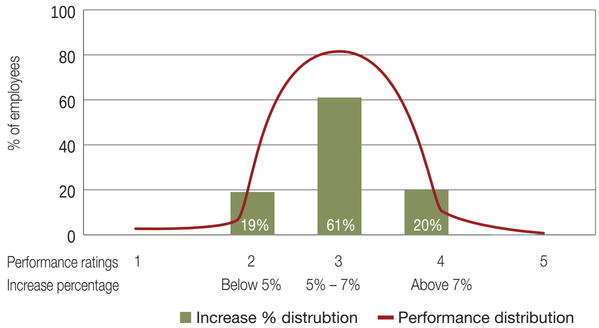
Remuneration report continued

The two graphs below highlight the correlation between performance and the commensurate annual percentage increases awarded to salaried staff.

Performance link to pay: Executive directors and prescribed officers



General staff



Short-term incentives (STI) and medium-term incentives (MTI) (refer to remuneration policy for more detail)

The accrual of incentive provisions is directly related to the businesses' financial performance. In light of the Aveng Group and the majority of its operating groups not meeting the predetermined financial targets for the year under review, the financial component of the incentive provision was reduced accordingly. Where a portion of the incentive provision did accrue, the individual awards made were subject to a stringent performance review and calibration process. In line with the Group's remuneration policy, bonuses to the top-three management levels were individually reviewed and approved by the committee. The committee has further discretion to moderate incentive payments where it is of the opinion that the overall results achieved do not correctly reflect the underlying performance of the business. The non-financial portion of the bonus is budgeted for annually and is awarded based upon individuals' performance ratings.

Employees in loss-making and / or negative cash flow operating businesses did not receive any incentives.

The number of employees who participated in the various Group incentive schemes for the 2013 / 2014 financial year, inclusive of McConnell Dowell, is depicted in the table below:

Scheme name	Number of participants	Percentage of total salaried staff complement*
STI	2 795	33
MTI	195	2
Total staff	8 424	100

* *These incentives relate only to salaried employees who are not participating on site or production-based incentives and excludes wage-earning employees.*

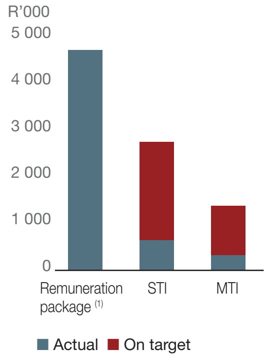
Incentive payouts

The graphs below depict the actual earnings of the executive directors relative to their guaranteed package and on-target earning potential. Given the adverse financial performance of the Aveng Group in the year under review, the executive directors and senior management did not qualify for the financial portion of the short-term and medium-term incentives. This constitutes 70% of their bonus-earning potential which they forfeited.

The remaining 30% of the bonus attributable to non-financial KPIs was adjudicated based on executives' performance relative to their individual KPIs which included:

- Safety performance
- Achieving transformation targets
- Attraction and retention of key talent
- Succession planning
- Turnaround of poor projects.

Kobus Verster – incentive earnings

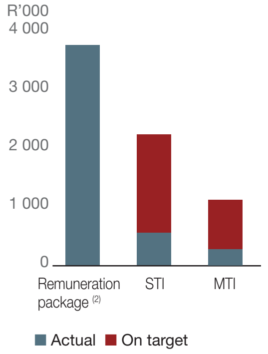


Note 1:

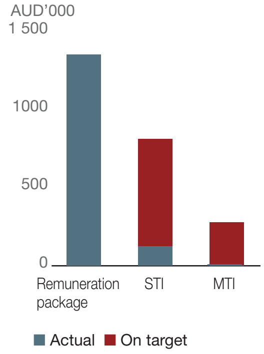
The remuneration package for Kobus Verster is made up of the following:

- Normal pay as Group FD for the period 1 July 2013 to 31 August 2013
- Acting CEO for the period 1 September 2013 to 9 February 2014 in addition to his FD role
- CEO remuneration for the period 10 February 2014 to 30 June 2014 in addition to his FD role
- An acting allowance of R735 000 for the period 1 September 2013 to 9 February 2014

Juba Mashaba – incentive earnings



David Robinson – incentive earnings



Note 2:
The remuneration package for Juba Mashaba is made up of the following:

— Normal pay as Group HR director for the period 1 July 2013 to 30 June 2014
— A responsibility allowance of R280 000 paid as a result of him assuming additional Group responsibilities for stakeholder management, Group corporate affairs and Group safety, health and environmental management portfolios during the period in which Kobus Verster was acting

Payments made to former CEO

The following payments were made to the former CEO, Roger Jardine, in accordance with his contractual provisions.

Payment type	Amount	Reason
Payment of accrued leave	R500 186	Payment due to him in accordance with provisions of employment contract
Payment of notice period	R1 127 499	Payment due to him in accordance with provisions of employment contract
Payment of 50% of 2012 / 2013 MTI	R202 950	Payment due to him in accordance with scheme rules
Total in cash	R1 830 635	
Vesting of forfeitable shares	148 880 shares	Shares vested and transferred into beneficial ownership of Roger Jardine as per scheme rules

Long-term incentives (LTIs)

The Group currently operates the Aveng Limited Share Appreciation Rights Plan (SAR Plan) and the Aveng Limited Forfeitable Share Plan (FSP). Both long-term incentives are designed to align Aveng senior executives' performance with the interests of shareholders by enabling them to share in the long-term growth of the business and to enable the Group to retain critical leadership talent required to deliver the Group's business strategy.

Share Appreciation Rights Plan (SAR Plan) (refer to remuneration policy for more detail)

In the year under review, SARs were granted to executives, senior management and senior employees with key business skills and who attained a minimum on-target performance rating as per the table below:

Employees that have been awarded SARs since the inception of the scheme are as follows:

Financial year	Number of beneficiaries awarded upon appointment	Number of beneficiaries granted annual awards	Total awards made	Number of SARs issued	Total number of SARS issued to date	Company limit	% issued to date	Forfeited to date*	Available for allocation
2011 / 2012	12	307	319	6 360 875					
2012 / 2013	11	248	259	6 055 062	10 545 137	39 300 124	27		
2013 / 2014	**2**	**260**	**262**	**6 233 008**	**18 648 945[b]**	**39 300 124[a]**	**47**	**4 283 448[c]**	**24 934 627[d]****

* *Employees who have terminated their services had their SARs forfeited.*
** *d = a-b+c.*

Remuneration report continued

Performance condition
Vesting of SARs is subject to the meeting of a performance condition. This performance condition is reviewed and set by the remuneration and nomination committee annually and approved by the Board prior to SAR grants being made to participants. The performance conditions applied for the 2013 / 2014 award is reflected hereunder:

Measures	Weightings
ROIC	50%
Operating fee cash flow per share	25%
Headline earnings growth (relative to the construction industry index)	25%

Forfeitable share plan (FSP) (refer to remuneration policy for more details)
In the year under review forfeitable shares were granted to a few senior executives with a return on equity measure set as a performance condition.

The FSP rules make provision for a quasi (internal) company limit to be placed on the maximum number of shares which may be allocated for purposes of the scheme. This has currently been set at 1% of the issued share capital.

The maximum number of shares allocated to each participant in respect of all unvested awards is limited to a maximum of 20% of the overall limit (1%) referred to above. The shares to be awarded to each participant are acquired on behalf of the employer company on the open market and the company will not issue any new shares in settlement of any award made in terms of the FSP. Accordingly, the awarding of forfeitable shares has no dilutionary effect on the company's issued share capital as the shares are purchased on the open market.

The number of employees that have been awarded forfeitable shares since the inception of the FSP, and the number of forfeitable shares issued to date relative to the overall FSP limit, is outlined below:

Aveng forfeitable share plan	Number of awards	Number of forfeitable shares (FS) issued	Total number of FS issued to date	Company limit	% issued to date	Vested / forfeited to date*	Available for further allocation
Total employees awarded FSP in 2011 / 2012	8	990 108					
Total employees awarded FSP in 2012 / 2013	4	352 200	1 342 308	3 930 012	34		2 587 704
Total employees awarded FSP in 2013 / 2014	**6**	**502 891**	**1 845 199[b]**	**3 930 012[a]**	**47**	**426 560[c]**	**2 511 373[d]****

* *Employees whose services were terminated prior to vesting date forfeited their shares on a* pro rata *basis in accordance with the rules of the scheme.*
** *d = a-b+c.*

Performance condition
Vesting of forfeitable shares is subject to the meeting of a performance condition. This performance condition is reviewed and set by the committee annually and approved by the Board prior to FSP grants being made to participants. The performance condition applicable for the 2013 / 2014 award was return on equity measured cumulatively over a three-year vesting period.

Remuneration focus areas going forward

1. The Financial Services Laws General Amendment Act, 2013 and the Taxation Laws Amendment Act, 2013 were promulgated to improve governance over pension and provident funds, and to align the rules and tax treatment of pension, provident and retirement annuity funds, while at the same time protecting vested rights. The implementation date is 1 March 2015, therefore in the 2014 / 2015 financial year there will be focus on reviewing the total guaranteed remuneration structure relating to the following:
   - Impact of the above Acts on payroll system
   - Impact on employees earning above the R350 000 threshold
   - Review of tax treatment of risk and disability benefits
   - Review of the Group's pension and provident funds' rules with a view to merging the two retirement funds.

2. With the current incentive design having been in place for the past five years, a review will be conducted to ascertain whether it has achieved its intended objectives taking into account its historical performance trend, the current labour market dynamics and the refocused business strategy.

   The multi-disciplinary and diverse nature of the Aveng business portfolio means that different business units compete with a range of different and sometimes unique organisations in their relevant sectors, many of which also compete for skills by employing industry-specific incentive structures. It is important for Aveng to take cognisance of the various incentive mechanisms being used in these markets and to create equally relevant, business unit-specific incentives while still driving towards overall Group sustainable performance.

Shareholders' analysis

Registered shareholder spread	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	1 999	47,9	780 921	0
1 001 – 10 000 shares	1 353	32,4	4 507 369	1
10 001 – 100 000 shares	510	12,2	19 883 803	5
100 001 – 1 000 000 shares	246	5,9	71 417 084	17
1 000 001 shares and above	68	1,6	320 081 754	77
Total	4 176	100,0	416 670 931	100

Distribution of shareholders	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Insurance companies	37	0,9	53 615 922	12,9
Unit trusts / mutual funds	180	4,3	150 726 020	36,2
Pension funds	250	6,0	134 141 083	32,2
Other managed funds	78	1,9	21 916 679	5,3
Private investors	43	1,0	7 248 137	1,7
Employees	2	0,0	6 148 902	1,5
Sovereign wealth	6	0,1	4 660 133	1,1
Custodians	9	0,2	1 206 186	0,3
University	9	0,2	1 136 758	0,3
Exchange-traded fund	2	0,0	807 353	0,2
Charity	5	0,1	557 016	0,1
Foreign government	1	0,0	455 300	0,1
Investment trust	5	0,1	17 558 467	4,0
Local authority	1	0,0	83 382	0,0
Stockbrokers	1	0,0	30 000	0,0
BEE strategic partner (concluded the arrangement between the BEE partner)	1	0,0	9 659 820	2,3
Remainder	3 546	84,9	6 719 773	1,8
Total	4 176	100,0	416 670 931	100,0

Public and non-public shareholding	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	4	0,1	6 037 156	1,4
Directors	2	0,0	10 000	0,0
Hogben Family Trust	1	0,0	8 770	0,0
Aveng Limited Share Purchase Trust	1	0,0	6 018 386	1,4
Community Investment Trust	1	0,0	8 586 507	2,0
Aveng Empowerment Trust	1	0,0	8 586 507	2,0
BEE strategic partner (conclusion of the arrangement with the BEE strategic partner)	1	0,0	9 659 820	2,3
Public shareholders	4 165	99,7	377 763 785	90,9
Total	4 176	100,0	416 670 931	100,0

Beneficial shareholders holding more than 3%	Number of shares	% of issued capital
PIC	65 092 764	15,5
Liberty Life Association of Africa	22 634 679	5,4
Skagen Kon-Tiki Verdipapirfond	21 017 094	5,0
Total	108 744 537	26,0

Geographic holdings by owner	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
South Africa	477	11,4	310 220 130	74,5
US and Canada	79	1,9	56 520 861	13,6
United Kingdom	23	0,6	7 972 628	1,9
Rest of Europe	10	0,2	32 507 898	7,8
Rest of the world[1]	3 587	85,9	9 449 414	2,3
Total	4 176	100,0	416 670 931	100,0

[1] *Represents all shareholdings except those in the above regions.*

Notice of annual general meeting

Aveng Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1944/018119/06)
ISIN: ZAE000111829
Share code: AEG
(Aveng) or (company)

Notice is hereby given to shareholders recorded in the company's securities register on Friday, 12 September 2014 that the seventieth annual general meeting (the AGM) of the shareholders of Aveng Limited will be held in the boardroom of the company, 204 Rivonia Road, Morningside, on Tuesday, 4 November 2014 at 10:00 to deal with the business as set out below and to consider and, if deemed appropriate, pass the ordinary and special resolutions set out hereunder in the manner required by the Companies Act 71 of 2008 (Act), as read with the Listings Requirements of the JSE Limited (JSE Listings Requirements), which meeting is to be participated in and voted at by shareholders as at the record date of Friday, 31 October 2014. Kindly note that in terms of section 63(1) of the Act, meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to participate in or vote at the AGM. Forms of identification that will be accepted include original and valid identity documents, driver's licences and passports.

In terms of the provisions of the Act and the company's memorandum of incorporation, ordinary resolutions require the approval of more than 50% of the votes cast by shareholders present or represented by proxy at the AGM while special resolutions require approval by at least 75% of such votes.

Shareholders are also referred to the explanatory notes on the resolutions as listed below following the notice of the AGM.

Presentation of annual financial statements

The consolidated audited annual financial statements of the company and its subsidiaries, incorporating the reports of the auditors, the audit committee and the directors for the year ended 30 June 2014 have been distributed as required and will be presented to shareholders as required in terms of section 30(3)(d) of the Act.

Report of the social, ethics and transformation committee

In accordance with Companies Regulation 43(5)(c), issued in terms of the Act, the chairman of the social, ethics and transformation committee or, in his absence, any member of the committee, will present a report to shareholders at the AGM.

Resolutions for consideration and approval

Ordinary resolutions 1.1 to 1.3: Election of directors

To elect by way of separate resolutions, directors who were appointed subsequent to the previous annual general meeting. The directors, all of whom being eligible, are:
— Mr Eric Diack
— Ms Kholeka Mzondeki
— Mr Adrian Macartney

Ordinary resolutions 2.1 to 2.4: Re-election of directors

To re-elect by way of separate resolutions, directors who are retiring by rotation in terms of the provisions of the company's memorandum of incorporation. The directors retiring by rotation are:
— Mr David Robinson
— Ms May Hermanus
— Mr Peter Erasmus
— Mr Peter Ward

Ordinary resolutions 3.1 to 3.3: Appointment of audit committee

To elect, by way of separate resolutions, the following independent non-executive directors as members of the audit committee from the end of this AGM until the conclusion of the next AGM in terms of section 94(2) of the Act:
— Mr Peter Ward
— Mr Eric Diack
— Ms Kholeka Mzondeki

Ordinary resolution 4: Reappointment of auditors

To reappoint, on recommendation of the current audit committee, Ernst & Young Inc as independent auditors of the company, the auditor meeting the requirements of section 90(2) of the Act, until conclusion of the next AGM.

Ordinary resolution 5: Endorsement of remuneration policy

To endorse through a non-binding, advisory vote, the remuneration policy of the company as set out on pages 102 to 114 of the integrated report of which this notice forms part.

Special resolution 1: General authority to repurchase shares

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED by way of a special resolution that the mandate given to the company in terms of its memorandum of incorporation (or one of its wholly owned subsidiaries) providing authorisation, by way of a general approval, to acquire the company's own securities, upon such terms and conditions and in such amounts as the directors may from time to time decide, subject to the JSE Listings Requirements, be extended, subject to the following:

- This general authority be valid until the company's next AGM, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this resolution (whichever period is shorter).
- The repurchase being effected through the order book operated by the JSE trading system, without any prior understanding or arrangement between the company and the counterparty.
- Repurchases may not be made at a price greater than 10% (ten percent) above the weighted average of the market value of the ordinary shares for the 5 (five) business days immediately preceding the date on which the transaction was effected.
- An announcement being published as soon as the company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the initial number of ordinary shares, and for each 3% (three percent) in aggregate of the initial number of ordinary shares repurchased thereafter, containing full details of such repurchases.
- The number of shares which may be acquired pursuant to this authority in any one financial year may not in the aggregate exceed 20% (twenty percent) of the company's issued share capital as at the date of passing of this special resolution or 10% (ten percent) of the company's issued share capital in the case of an acquisition of shares in the company by a subsidiary of the company.
- The company's sponsor confirming the adequacy of the company's working capital for purposes of undertaking the repurchase of ordinary shares in writing to the JSE prior to the company entering the market to proceed with the repurchase.
- The company and/or its subsidiaries not repurchasing securities during a prohibited period as defined in the JSE Listings Requirements, unless it has in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed in an announcement published on SENS prior to the commencement of the prohibited period.
- At any point in time the company only appointing one agent to effect any repurchases on its behalf.
- The board of directors passing a resolution that they authorised the repurchase and that the company passed the solvency and liquidity test set out in section 4 of the Companies Act of 2008 and that since the test was done there have been no material changes to the financial position of the group."

The directors, having considered the effects of the maximum repurchase permitted, are of the opinion that for a period of 12 (twelve) months after the date of the notice of the AGM and at the actual date of the repurchase:

- the company and the Group will be able, in the ordinary course of business, to pay its debts;
- the working capital of the company and the Group will be adequate for ordinary business purposes;
- the assets of the company and the Group, fairly valued in accordance with International Financial Reporting Standards, will exceed the liabilities of the company and the Group; and
- the company's and the Group's ordinary share capital and reserves will be adequate for ordinary business purposes.

Special resolution 2: Non-executive directors' remuneration

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED, as a special resolution:

- that the company be and is hereby authorised to pay remuneration to its non-executive directors for their services as directors, as contemplated in section 66(8) and 66(9) of the Companies Act of 2008; and
- that the remuneration structure and amounts as set out below, be and are hereby approved, for implementation from the quarter commencing 1 October 2014 until such time as rescinded or amended by shareholders by way of a special resolution."

Notice of annual general meeting continued

2014 / 2015

Entity	Position	Current fees (R)	Recommended increase (%)	Recommended fees (R)
Main board	Chairman	815 700	6.5	868 700
	Director	268 500	6.5	286 000
	Ad hoc meetings**	23 600	6.5	25 100
Subsidiary boards	Director	142 700	6.5	152 000
	McConnell Dowell travel allowance*	65 200	6.5	69 400
Remuneration and nomination committee	Chairman	180 900	6.5	192 700
	Member	71 900	6.5	76 600
Safety, health and environmental committee	Chairman	156 200	6.5	166 400
	Member	59 600	6.5	63 500
Tender risk committee[1]	Member*	6 200	62	10 000
Social, ethics and transformation committee	Chairman	156 200	6.5	166 400
	Member	59 600	6.5	63 500
Risk committee	Chairman	180 900	6.5	192 700
	Member	71 900	6.5	76 600
Audit committee	Chairman	239 300	6.5	254 900
	Member	134 800	6.5	143 500
	Subsidiaries	73 000	6.5	77 700
Investment committee	Chairman*	9 600	6.5	10 200
	Member*	7 200	6.5	7 700
Ad hoc committee meetings (including workshops / training sessions	Member***	15 300	6.5	16 300
Extraordinary services rendered****				4 000

* *Per meeting attended.*
** *Per meeting attended in excess of the five scheduled meetings per year.*
*** *Directors who are not members of a board committee are sometimes requested on an* ad hoc *basis to attend meetings of certain committees. The proposed fee structure as set out above includes a fee payable under these circumstances. The meeting attendance fee to directors who are not members of the relevant committee will only be paid if attendance is based on a formal invitation from the committee chairman.*
**** *Per hour, not exceeding eight hours per day.*
1 *A 62% increase was applied because the time involved in preparing and attending the meeting has increased substantially.*

Special resolution 3: Financial assistance to related and inter-related companies

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:
"RESOLVED, by way of a special resolution, that the authority of the directors of the company as previously approved by shareholders as required in terms of sections 44 and/or 45(2) of the Companies Act of 2008 and the company's memorandum of incorporation to provide financial assistance to all related and inter-related companies within the Aveng Group of companies, at such times and on such terms and conditions as the directors in their sole discretion deem fit and subject to all relevant statutory and regulatory requirements being met, be and is hereby renewed, such authority to remain in place until rescinded by way of special resolution passed at a duly constituted AGM of the company."

Ordinary resolution 6: Signing authority

To authorise any one director or the secretary of the company to do all such things and sign all such documents as are deemed necessary to implement the resolutions set out in the notice convening the AGM at which this ordinary resolution will be considered and approved at such meeting.

Additional information

The following additional information, some of which may appear elsewhere in the integrated annual report, is provided in terms of the JSE Listings Requirements for purposes of the general authority to repurchase the company's shares set out in special resolution 1 above:

— Directors and management – pages 16 and 62
— Major shareholders – page 121
— Directors' interests in ordinary shares – www.aveng.co.za/financials/annual_reports
— Share capital of the company – www.aveng.co.za/financials/annual_reports
— Material change – there were no material changes in the annual financial statements
— Directors' report – www.aveng.co.za/financials/annual_reports

Litigation statement

The directors in office whose names appear on pages 16 and 17 of the integrated annual report, are not aware of any legal or arbitration proceedings, including any proceedings that are pending or threatened, that may have, or have had, in the recent past, being at least the previous 12 (twelve) months from the date of this integrated report, a material effect on the Group's financial position.

Directors' responsibility statement

The directors in office, whose names appear on pages 16 and 17 of the integrated report, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution 1 and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required by the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in the integrated annual report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the company's financial year-end and the date of signature of the integrated report.

Directors' intention regarding the general authority to repurchase the company's shares

The directors have no specific intention, at present, for the company to repurchase any of its shares but consider that such a general authority should be put in place should an opportunity present itself to do so during the year which is in the best interests of the company and its shareholders.

Electronic participation

Should any shareholder of the company wish to participate in the AGM by way of electronic participation, such shareholder shall make application in writing (including details as to how the shareholder or its representative can be contacted) to so participate, to the transfer secretaries at the applicable address set out below at least 5 (five) business days prior to the annual general meeting in order for the transfer secretaries to arrange for the shareholder (and its representative) to provide reasonably satisfactory identification to the transfer secretaries for the purposes of section 63(1) of the Act and for the transfer secretaries to provide the shareholder (or its representative) with details as to how to access any electronic participation to be provided. The company reserves the right not to provide for electronic participation at the AGM in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the company will be borne by the shareholder so accessing the electronic participation.

Proxies and voting

Shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own-name' registration, and who are entitled to attend, participate in and vote at the annual general meeting, are entitled to appoint a proxy to attend, speak and vote in their stead. A proxy need not be a shareholder and shall be entitled to vote on a show of hands or poll. It is requested that proxy forms be forwarded so as to reach the transfer secretaries, Computershare Investor Services (Proprietary) Limited (70 Marshall Street, Corner Sauer Street, Johannesburg; PO Box 61051, Marshalltown, 2107), by no later than 48 (forty-eight) hours before the commencement of the AGM. If shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own-name' registration, and who are entitled to attend, participate in and vote at the AGM do not deliver proxy forms to the transfer secretaries by the relevant time, such shareholders will nevertheless be entitled to lodge the form of proxy in respect of the AGM immediately prior to the AGM, in accordance with the instructions therein, with the chairman of the meeting.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with 'own-name' registration, should contact their CSDP or broker in the manner and within the time stipulated in the agreement entered into between them and their CSDP or broker to:

- furnish them with their voting instructions; or
- in the event that they wish to attend the AGM, obtain the necessary letter of representation to do so.

On a show of hands, every shareholder present in person or represented by proxy and entitled to vote shall have only one vote irrespective of the number of shares such shareholder holds. On a poll, every shareholder present in person or represented by proxy and entitled to vote, shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by such shareholder bears to the aggregate amount of the nominal value of all shares issued by the company.

Shareholders or proxies are advised that they will be required to present reasonably satisfactory identification in order to attend or participate in the AGM as required in terms of section 63(1) of the Act of 2008. Forms of identification that will be accepted include original and valid identity documents, driver's licences and passports.

For the purpose of resolutions proposed in terms of the JSE Listings Requirements wherein any votes are to be excluded from that resolution, any proxy given by a holder of securities to the holder of such an excluded vote shall be excluded from voting for the purposes of that resolution.

By order of the Board

Ms M Nana
Company secretary

Morningside
22 September 2014

Explanatory notes: Annual general meeting

Presentation of annual financial statements

At the annual general meeting (AGM), the directors must present the annual financial statements for the year ended 30 June 2014 to shareholders, together with the reports of the directors, the audit committee and the auditors. These are contained at www.aveng.co.za/financials/annual_reports.

Presentation of report by social, ethics and transformation committee

In terms of Regulation 43(5)(c), one of the statutory functions of a social and ethics committee constituted in terms of the Act is to report, through one of its members, to shareholders at the company's AGM on the matters within the committee's mandate. The chairman of the social, ethics and transformation committee, or in his absence one of the members of the committee, shall provide a report to shareholders at the AGM on the statutory matters within the committee's mandate in compliance with this requirement.

Resolutions

Ordinary resolutions 1.1 to 1.3 – Election of directors

In accordance with the company's memorandum of incorporation, a director appointed as such following the conclusion of the previous AGM shall stand down and, if eligible and willing to do so, offer themselves for election by shareholders at the first annual general meeting of shareholders following their appointment. The following newly appointed directors, being eligible, have offered themselves for election by shareholders:

- Mr Eric Diack
- Ms Kholeka Mzondeki
- Mr Adrian Macartney

The profiles of the directors up for election are contained at www.aveng.co.za/group/directors/board_of_directors.

Ordinary resolutions 2.1 to 2.4 – Re-election of directors

In accordance with the company's memorandum of incorporation, one-third of the directors are required to retire at each AGM and may, if eligible, offer themselves for re-election.

The following directors, retiring by rotation and being eligible, have offered themselves for re-election:

- Mr David Robinson
- Ms May Hermanus
- Mr Peter Erasmus
- Mr Peter Ward

The profiles of the directors up for re-election are contained at www.aveng.co.za/group/directors/board_of_directors.

Ordinary resolutions 3.1 to 3.3 – Appointment of audit committee

In terms of section 94(2) of the Act, a public company must at each AGM elect an audit committee comprising at least three members who are directors and who meet the criteria of section 94(4) of the Act. Regulation 42 to the Act specifies that one-third of the members of the audit committee must have appropriate academic qualifications or experience in the areas as listed in the regulation.

The board of directors of the company is satisfied that the proposed members of the audit committee meet all relevant requirements.

Ordinary resolution 4 – Reappointment of auditors

Ernst & Young, external auditor of the company, has indicated its willingness to continue in office and ordinary resolution 4, based on the recommendation of the audit committee, proposes the reappointment of that firm as the company's auditors until conclusion of the next AGM.

Ordinary resolution 5 – Endorsement of remuneration report

The King Report on Corporate Governance for South Africa, 2009, recommends that the remuneration philosophy of the company be submitted to shareholders for consideration and for an advisory, non-binding vote to provide shareholders with an opportunity to indicate should they not be in support of the material provisions of the remuneration philosophy and policy of the company.

Special resolution 1 – General authority to repurchase shares

Section 48 of the Act authorises the board of directors of a company to approve the acquisition of its own shares subject to the provisions of section 48 and section 46 having been met. The JSE Listings Requirements require the shareholders of the company to approve the authority to repurchase shares and the approval of a 75% majority of the votes cast by shareholders present or represented by proxy at the AGM for special resolution 1 to become effective.

Special resolution 2 – Non-executive directors' remuneration

In terms of section 66(8) and section 66(9) of the Act, companies may pay remuneration to directors for their services as directors unless otherwise provided by the memorandum of incorporation and on approval of shareholders by way of a special resolution. Executive directors are not specifically remunerated for their services as directors but as employees of the company and as such, the resolution as included in the notice requests approval of the remuneration paid to non-executive directors for their services as directors of the company.

Special resolution 3 – Financial assistance to related and inter-related companies

Section 45(2) of the Act authorises the Board to provide direct or indirect financial assistance to a related or inter-related company, subject to subsections (3) and (4) of section 45 of the Act and unless otherwise provided in the company's memorandum of incorporation. In terms of section 45(3) of the Act, a special resolution of shareholders is required in these instances. The main purpose of the special resolution as set out in the notice of the meeting is to approve the granting of inter-company loans, a recognised and well-known practice, details of which are also set out in the notes to the annual financial statements.

Ordinary resolution 6 – Signing authority

Authority is required to do all such things and sign all documents and take all such action as necessary to implement the resolutions set out in the notice and approved at the AGM. It is proposed that the company secretary and/or director be authorised accordingly.

General

Shareholders and proxies attending the AGM on behalf of shareholders are reminded that section 63(1) of the Act requires that reasonably satisfactory identification be presented in order for such shareholder or proxy to be allowed to attend or participate in the meeting.

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Operational review
Corporate governance
Remuneration
Shareholder information and administration

Shareholders' diary

Financial year-end	30 June
Annual general meeting	4 November 2014
Publication of results	
– Half-year ended 31 December 2014	17 February 2015
– Year ended 30 June 2015	18 August 2015

Form of proxy

Aveng Limited

(Incorporated in the Republic of South Africa)
(Registration number 1944/018119/06)
(Aveng) or (company)

For use by the registered holders of certificated Aveng shares and the holders of dematerialised Aveng shares in their own name at the annual general meeting (AGM) of the company to be held at 204 Rivonia Road, Morningside, on Tuesday, 4 November 2014 at 10:00.

Holders of Aveng shares (whether certificated or dematerialised) through a nominee must not complete this form of proxy, but should timeously make the necessary arrangements with that nominee or, if applicable, Central Securities Depository Participant or broker, to enable them to attend and vote at the AGM or to enable their votes in respect of their Aveng shares to be cast at the AGM by that nominee or a proxy or a representative.

I/We

(please print)

of (address)

being the registered holder(s) of ordinary shares in the capital of the company do hereby appoint:

1. or failing him/her,

2. or failing him/her,

the chairman of the AGM, as my/our proxy to vote on my/our behalf at the AGM which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the special and ordinary resolutions to be proposed at the AGM and at each adjournment of the AGM and to vote for or against the special and ordinary resolutions or to abstain from voting in respect of the shares in the issued share capital of the company registered in my/our name/s, in accordance with the following instructions (see note 2):

Proposed resolutions	For	Against	Abstain
1. Ordinary resolution 1.1: Election of director – Mr Eric Diack			
Ordinary resolution 1.2: Election of director – Ms Kholeka Mzondeki			
Ordinary resolution 1.3: Election of director – Mr Adrian Macartney			
2. Ordinary resolution 2.1: Re-election of director – Mr David Robinson			
Ordinary resolution 2.2: Re-election of director – Ms May Hermanus			
Ordinary resolution 2.3: Re-election of director – Mr Peter Erasmus			
Ordinary resolution 2.4: Re-election of director – Mr Peter Ward			
3. Ordinary resolution 3.1: Election of audit committee member – Mr Peter Ward			
Ordinary resolution 3.2: Election of audit committee member – Mr Eric Diack			
Ordinary resolution 3.3: Election of audit committee member – Ms Kholeka Mzondeki			
4. Ordinary resolution 4: Reappointment of external auditors			
5. Ordinary resolution 5: Endorsement of remuneration report			
6. Special resolution 1: General authority to repurchase shares			
7. Special resolution 2: Non-executive directors' remuneration			
8. Special resolution 3: Financial assistance to related and inter-related companies			
9. Ordinary resolution 6: Signing authority			

Signed at on 2014

Signature

Assisted by me (where applicable)

Each member is entitled to appoint one or more proxies (who need not be a member of the company) to attend, speak and vote in place of that member at the AGM.

Please read the notes on the reverse side hereof.

Notes to the form of proxy

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided, with or without deleting 'the chairman of the AGM' but any such deletion must be initialled by the member. The person whose name appears first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A member's instructions to the proxy must be indicated in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the AGM as he/she deems fit. A member may instruct the proxy to vote fewer than the total number of shares held by inserting the relevant number of shares in the appropriate box provided. A member who fails to do so will be deemed to have authorised the proxy to vote or abstain from voting, as the case may be, in respect of all the member's votes exercisable at the AGM.

3. Forms of proxy must be lodged with or posted to the company's share registrar, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received by no later than 10:00 on Friday, 31 October 2014. Alternatively, such proxy forms may be handed to the company secretary or chairman of the AGM not later than 30 minutes prior to the commencement of the AGM.

4. The completion and lodging of this form of proxy will not preclude the member from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointment in terms thereof, should each member wish to do so.

5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity (eg for a company, close corporation, trust, pension fund, deceased estate, etc) must be attached to this form of proxy unless previously recorded by the company's share registrar or waived by the chairman of the AGM.

6. An alteration or correction made to this form of proxy must be initialled by the signatory/ies.

7. A minor must be assisted by the minor's parent or guardian unless the relevant documents establishing the minor's legal capacity are produced or have been registered by the share registrar of the company.

8. Where there are joint holders of shares in the company, any one of such persons may, alone, sign this form of proxy in respect of such shares as if such person was the sole holder but, if more than one of such joint holders submits a form of proxy, the form of proxy, if accepted by the chairman of the AGM, submitted by the holder whose name appears first in the company's share register will be accepted to the exclusion of any other forms of proxy submitted by any other joint holder(s).

9. The chairman of the AGM may accept any form of proxy which is completed other than in accordance with these notes if the chairman of the annual general meeting is satisfied as to the manner in which the member wishes to vote.

10. A proxy need not be a member of the company.

11. On a show of hands every shareholder present in person or every proxy or duly authorised representative representing shareholders shall have only one vote, irrespective of the number of shareholders or shares he / she represents or holds.

12. On a poll, every shareholder present in person or represented by proxy or a duly authorised representative shall have one vote for every share held by such shareholder.

13. A resolution put to the vote shall be decided on a show of hands unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the AGM. If a poll is demanded, the resolution put to the vote shall be decided on a poll.

Our code of business conduct

The **law** will not be violated when conducting business for or on behalf of the Group.

Safety is paramount, never to be compromised in the pursuit of any other objective.

The Aveng Group is committed to compliance with the provisions of the **Competition Act 89 of 1998**. Any effort to manipulate the markets, in which the Group is active, including collusion with competitors, will result in disciplinary action.

The Aveng Group has a **zero-tolerance policy** on bribery and any unethical payments to clients or business associates will result in disciplinary action.

Any possible **conflict of interest** in handling group affairs will be avoided and employees will perform their duties conscientiously, honestly and in accordance with the best interests of the Group and its shareholders.

Employees will not derive **personal advantage** from their position in the Group, nor will they acquire any business interest which could divert their energy from group responsibilities. They will not participate in an activity that is potentially in conflict with group interests or which could be perceived to impair their independence. Employees will not accept gifts, hospitality, or other favours from suppliers or potential suppliers of goods or services which, in the view of their immediate line superior or colleagues would be unwise, potentially sending the wrong message to subordinates and / or placing the recipient or the Group under a perceived obligation.

Group funds, property and assets will be used only for legitimate business purposes. **Strict internal controls** and governance procedures of the highest order will be introduced and enforced to discourage fraud and safeguard the Group.

Accurate and **reliable records** will be kept which fairly reflect all business transactions in terms of statements of International Financial Reporting Standards, for the Group to properly manage its affairs and meet its legal, financial and reporting obligations. Personal and business information gained in the course of business dealings will be safeguarded and its privacy respected.

The Aveng Group will uphold its **employment equity policy** which requires that equal opportunity be offered to all employees. The individuality of each person, their right to freedom of association and to absolute privacy in this regard will be respected. Harassment of any form, including sexual harassment, will be viewed in a very serious light and appropriate disciplinary action taken.

The Aveng Group's **people** are unquestionably its most important asset. Through careful selection, ongoing development, performance-based management and fair reward, every person in our Group will be encouraged to realise their full potential. Exceptional commitment to the Group's core values of integrity, quality and entrepreneurship will be appropriately rewarded.

The Aveng Group will strive to be a **leading corporate citizen**, working with employees, their families, local communities and society at large to improve the overall quality of life and to achieve sustainable economic development at all levels.

The Aveng Group will promote policies and operating procedures that conserve resources and minimise the **environmental impact** of its business activities.

Finally, the Aveng Group, its subsidiaries and officers will seek to build an atmosphere of openness and trust through regular, timeous and courteous **communication** with all stakeholders.

Corporate information

Company Secretary
Michelle Nana

Business address and registered office
204 Rivonia Road
Morningside
Sandton, 2057
PO Box 6062
Rivonia, 2128
South Africa
Telephone +27 (0) 11 779 2800
Telefax +27 (0) 11 784 5030

Company registration number
1944/018119/06

Share codes
JSE: AEG
ISIN: ZAE 000111829

Website
www.aveng.co.za

Auditors
Ernst & Young Incorporated
Registration number: 2005/002308/21
102 Rivonia Road
Sandton
Johannesburg, 2194
Private Bag X14
Northlands, 2116
South Africa
Telephone +27 (0) 11 772 3000
Telefax +27 (0) 11 772 4000

Principal bankers
Absa Bank Limited
Australia and New Zealand Banking Group Limited
Barclays Bank Public Limited Company
Commonwealth Bank of Australia Limited
FirstRand Bank Limited
Investec Bank Limited
Nedbank Limited
Standard Chartered Bank Public Limited Company
The Hong Kong and Shanghai Banking Corporation Limited
The Standard Bank of South Africa Limited

Corporate legal advisers
Webber Wentzel
10 Fricker Road
Illovo Boulevard
Illovo, 2196
South Africa
PO Box 6177
Marshalltown, 2107
South Africa
Telephone +27 (0) 11 530 5000
Telefax +27 (0) 11 530 1111

Sponsor
J.P. Morgan Equities South Africa (Proprietary) Limited
Registration number: 1995/011815/07
1 Fricker Road, cnr Hurlingham Road
Illovo, 2196
South Africa
Telephone +27 (0) 11 537 0300
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Registrars
Computershare Investor Services (Proprietary) Limited
Registration number: 2004/003647/07
70 Marshall Street, Johannesburg, 2001
PO Box 61051
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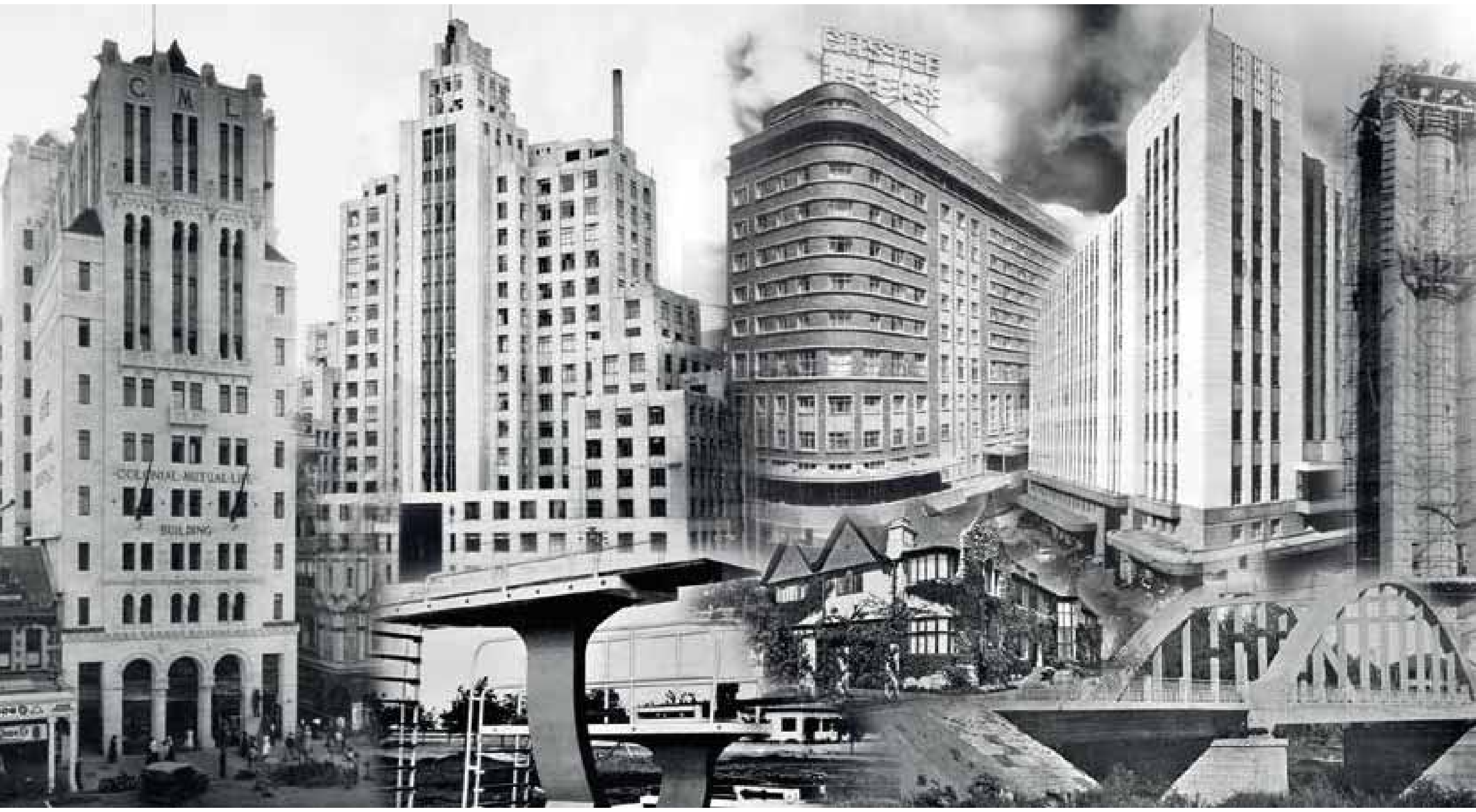

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