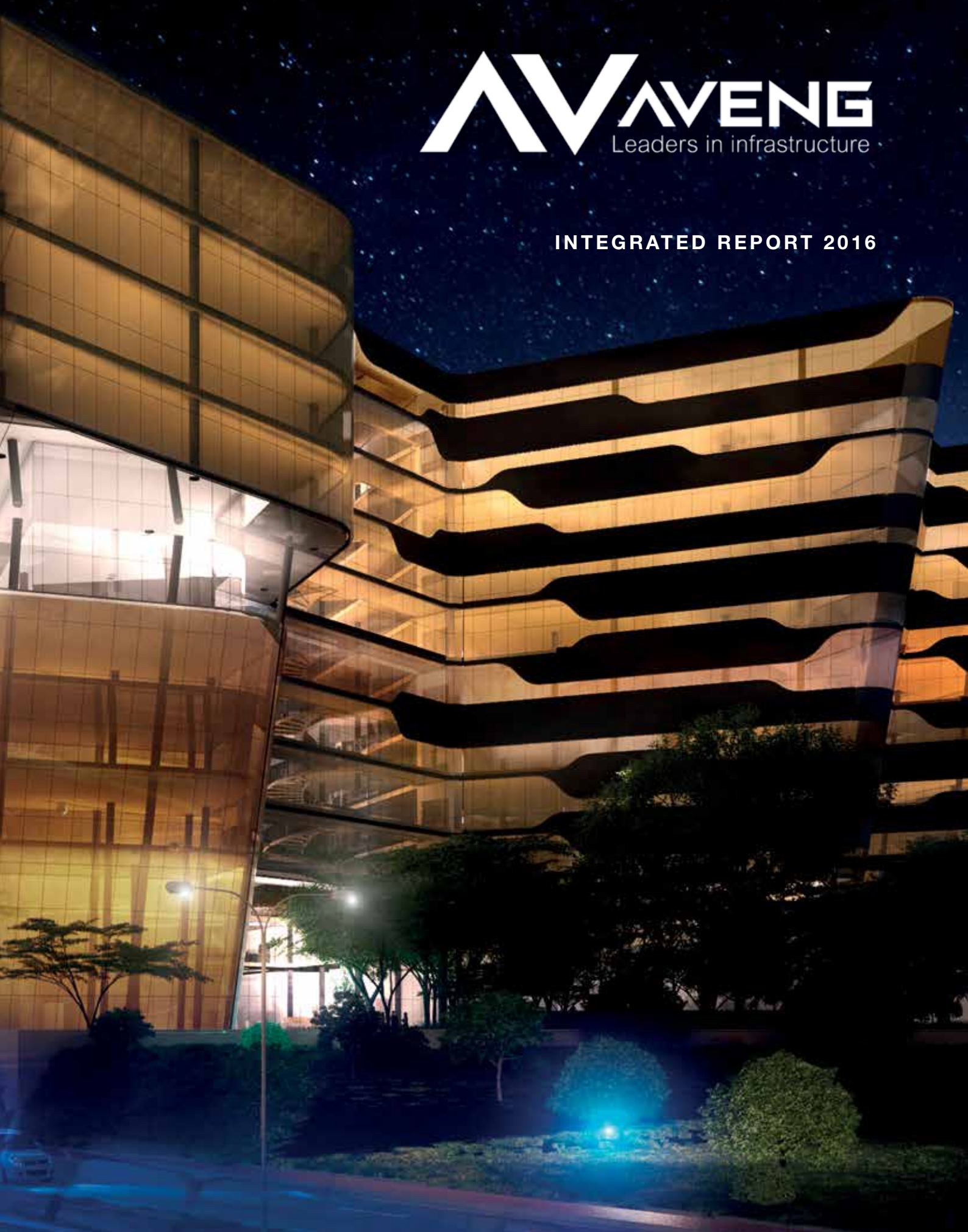




INTEGRATED REPORT 2016



Aveng 2016



Vision

Aveng owns and operates a portfolio of infrastructure, mining and manufacturing-related businesses, each of which targets 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.

Values



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



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

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.

Forward-looking statements


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

1 About the integrated report	7 Who we are and what we do	18 Material matters
<ul style="list-style-type: none"> 2 Aveng 2016 suite of reports 2 About the report <ul style="list-style-type: none"> Reporting approach Assurance and comparability 3 Board responsibility and approval statement 4 About Aveng 5 Salient features <ul style="list-style-type: none"> Financial performance Non-financial performance 	<ul style="list-style-type: none"> 7 Aveng Group organogram 8 Our footprint 10 Our business model 12 Our capital capabilities 14 Board of directors 16 Executive directors, key and senior management 	<ul style="list-style-type: none"> 18 Material matters determination process 19 Identifying material matters <ul style="list-style-type: none"> Aveng enterprise risk management Key business risks Stakeholder engagement Business environment 22 Evaluation and prioritisation 24 Material matters

28 Strategy	36 2016 events	
<ul style="list-style-type: none"> 29 A responsive strategy 29 Recover and stabilise 32 Position for profitable growth 34 Realise growth and sustain profitability 	<p>Message from the board</p> <ul style="list-style-type: none"> 36 Chairman's statement <p>Performance</p> <ul style="list-style-type: none"> 40 Executive review 48 Financial review and key ratios 	<ul style="list-style-type: none"> 52 Operational reviews Construction and Engineering <ul style="list-style-type: none"> 52 South Africa and rest of Africa 58 Australasia and Asia 64 Mining 70 Manufacturing and Processing

76 Abridged corporate governance	88 Remuneration report	108 Shareholders' analysis and diary
		Appendix
		<ul style="list-style-type: none"> 110 Summarised audited consolidated financial statements
		Cover image
		Sasol Head Office in Sandton, South Africa

Aveng 2016 suite of reports

	Integrated report	Audited consolidated annual financial statements
Contents	Concise communication focused on Aveng's material matters, performance and outlook for sustained value creation.	<ul style="list-style-type: none"> ◆ Audit committee report ◆ Directors' report ◆ Report of the independent auditors ◆ Audited consolidated financial statements.
Relationship of information between suite of reports	Relevant cross-references to more comprehensive information across the suite of reports.	A summarised audited consolidated set of financial statements has been extracted from the audited consolidated financial statements and included in the integrated report as an appendix.
Frameworks and guidelines applied	<ul style="list-style-type: none"> ◆ The King Code of Governance for South Africa (2009) (King III) ◆ IIRC International Integrated Reporting Framework V1.0 ◆ Companies Act 71 of 2008 (Companies Act) ◆ JSE Listings Requirements. 	<ul style="list-style-type: none"> ◆ International Financial Reporting Standards (IFRS) ◆ Companies Act ◆ JSE Listings Requirements.
Assurance	The Board, assisted by the audit committee and other sub-committees, oversees the integrated reporting process.	<ul style="list-style-type: none"> ◆ External audit opinions ◆ Internal audit ◆ Internal controls ◆ Management and governance oversight.
Web link	 www.aveng.co.za	



Stay informed

This report is complemented by our online information and resources at www.aveng.co.za

About the report

Reporting approach

This is Aveng's sixth integrated report, and is a further step forward in our corporate reporting journey. Our suite of reports for the 2016 financial year are identified and explained in the table above for ease of reference.

This report covers the financial period 1 July 2015 to 30 June 2016 and includes the performance of all of the Group's operations across all the geographies it operates in. Where external entities substantially influence Aveng's business, their real and potential impacts are also discussed in this report. Key matters have been identified in line with accepted best practice, and the matters regarded as being most material for Aveng and its stakeholders are shown on pages 24 to 26.  Aveng defines the materiality of matters for reporting purposes as those matters that substantially affect the Group's ability to create and sustain value over the short, medium and long term. For more information on the material matters determination process undertaken, refer to pages 18 to 23. 

Assurance and comparability

Changes to Aveng's operational structure are discussed under the section 2016 events. 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 sections.

The summarised audited consolidated financial statements contained in this report are extracted from the audited consolidated financial statements, 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 JSE Limited, and independently audited by Ernst & Young Inc.

Sustainability overview	Corporate governance	Annual general meeting documents
<ul style="list-style-type: none"> ◆ Safety ◆ Health and wellness ◆ Environment ◆ Human resources ◆ South Africa transformation ◆ Corporate social investment ◆ Independent limited assurance report. 	<ul style="list-style-type: none"> ◆ Full corporate governance report ◆ King III compliance register. 	<ul style="list-style-type: none"> ◆ Our code of business conduct ◆ Letter to shareholders ◆ Salient features ◆ Commentary ◆ Extract from summarised audited consolidated financial statements ◆ Notice of annual general meeting ◆ Form of proxy ◆ Notes to the form of proxy ◆ Shareholders' diary ◆ Corporate information.
<p>Key elements of the above information have been incorporated into the executive and operational reviews of the integrated report.</p>	<p>An abridged version of the full corporate governance report has been included in the integrated report.</p>	<p>This statutory information is posted to shareholders prior to the annual general meeting.</p>
<ul style="list-style-type: none"> ◆ Aveng safety, health and environment and human resource policies and frameworks ◆ Carbon Disclosure Project (CDP), Water Disclosure Project (WDP) and Greenhouse Gas (GHG) protocol ◆ JSE Socially Responsible Investment Index (SRI) ◆ B-BBEE Codes of Good Practice ◆ Construction Sector Charter. 	<ul style="list-style-type: none"> ◆ King III ◆ Companies Act ◆ JSE Listings Requirements. 	<ul style="list-style-type: none"> ◆ King III ◆ Companies Act ◆ JSE Listings Requirements.
<ul style="list-style-type: none"> ◆ Internal audit ◆ Limited assurance by external audit on selected metrics ◆ BEE verification. 	<ul style="list-style-type: none"> ◆ Internal audit ◆ Annual board assessments. 	<ul style="list-style-type: none"> ◆ Internal controls ◆ Management and governance oversight.



This icon indicates sustainability information within this report.




This icon indicates where further information or supplementary reports can be found online.



This icon indicates where further information on a matter can be found elsewhere in this report.

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 full comprehensive view.

The Group has sought independent assurance on selected non-financial metrics from its external auditors, Ernst & Young Inc. The limited assurance engagement was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and in accordance with ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*, issued by the International Auditing and Assurance Standards Board.

Aveng's combined risk management assurance model is well encapsulated in its "three lines of defence" approach and is continuously being improved, as reported on pages 18 and 19. 

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:

Mahomed Seedat
Chairman

About Aveng


Reporting philosophy

Aveng considers the integrated reporting journey a process to transform the way we effectively communicate information that is material to the way we create and sustain value with our stakeholders.

Reporting on what matters



Feedback

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 

Key features of 2016

Strategic execution

The Group delivered on its strategic initiatives to improve liquidity. Two strategic transactions concluded.

 [see page 41.](#)

Cost reduction

Substantial restructuring has been implemented to enable profitability at current market levels. We continue to maintain cost control.

 [see page 40.](#)

Stronger South African construction business

Substantial improvement has been achieved in the performance of Aveng Grinaker-LTA which is positioned to continue its turnaround in current market conditions.

 [see pages 42 to 45.](#) 

Effective leadership

Stable and decisive management teams are supported by strategically aligned performance management and Aveng's core values.

 [see pages 44 to 47.](#)

Aveng focused and positioned for improved profitability

The majority of our domestic businesses are resilient and sufficiently optimised to capitalise on growth opportunities.

 [see pages 40, 45 and 46.](#)

Salient features

Performance

Financial performance

Revenue

R33,8 billion

Decrease of 23% from R43,9 billion at June 2015

Net operating earnings / (loss)

R146 million

Improvement from R(288) million at June 2015

Loss per share

25,4 cents

Improvement of 78% from 114,8 cents at June 2015

Headline loss per share

75,2 cents

Improvement of 48% from 144,3 cents at June 2015

Improved liquidity

due to property sales and cash generation in South African operations

Non-financial performance

Zero fatalities

under direct supervision of Aveng

Improved performance in the All Injury Frequency Rate (AIFR)

reduced by 22% to 2,7

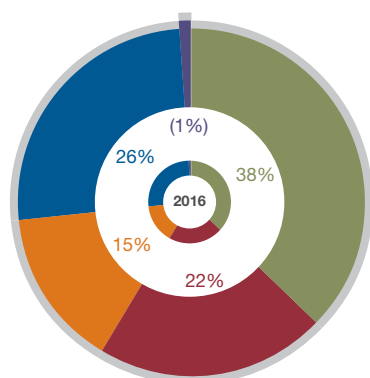
Continued focus on **road safety** in South Africa

B-BBEE rating

Level 2

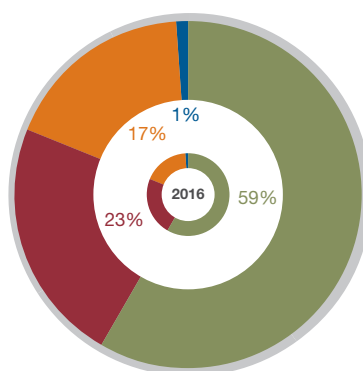
(2015: level 2)

Revenue by segment



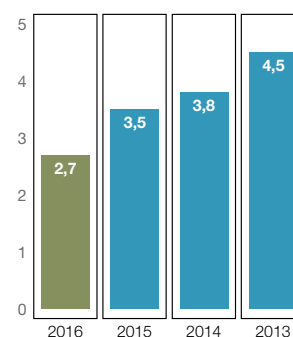
- Construction and Engineering: Australasia and Asia
- Construction and Engineering: South Africa and rest of Africa
- Mining
- Manufacturing and Processing
- Other

Two-year order book by segment



- Construction and Engineering: Australasia and Asia
- Construction and Engineering: South Africa and rest of Africa
- Mining
- Manufacturing and Processing

AIFR trend (per 200 000 hours)





Gouda wind farm, Western Cape, South Africa

Group organogram

Markets in which we operate

Buildings

Commercial and civil



Roads & Rail

Construction, tunnels and bridges



Oil & Gas

Plants and pipelines



Mining

Surface and underground



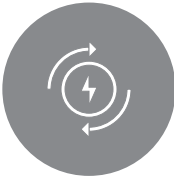
Marine

Ports and sea infrastructure



Power

Fossil fuel, renewables and hydroelectric transmissions



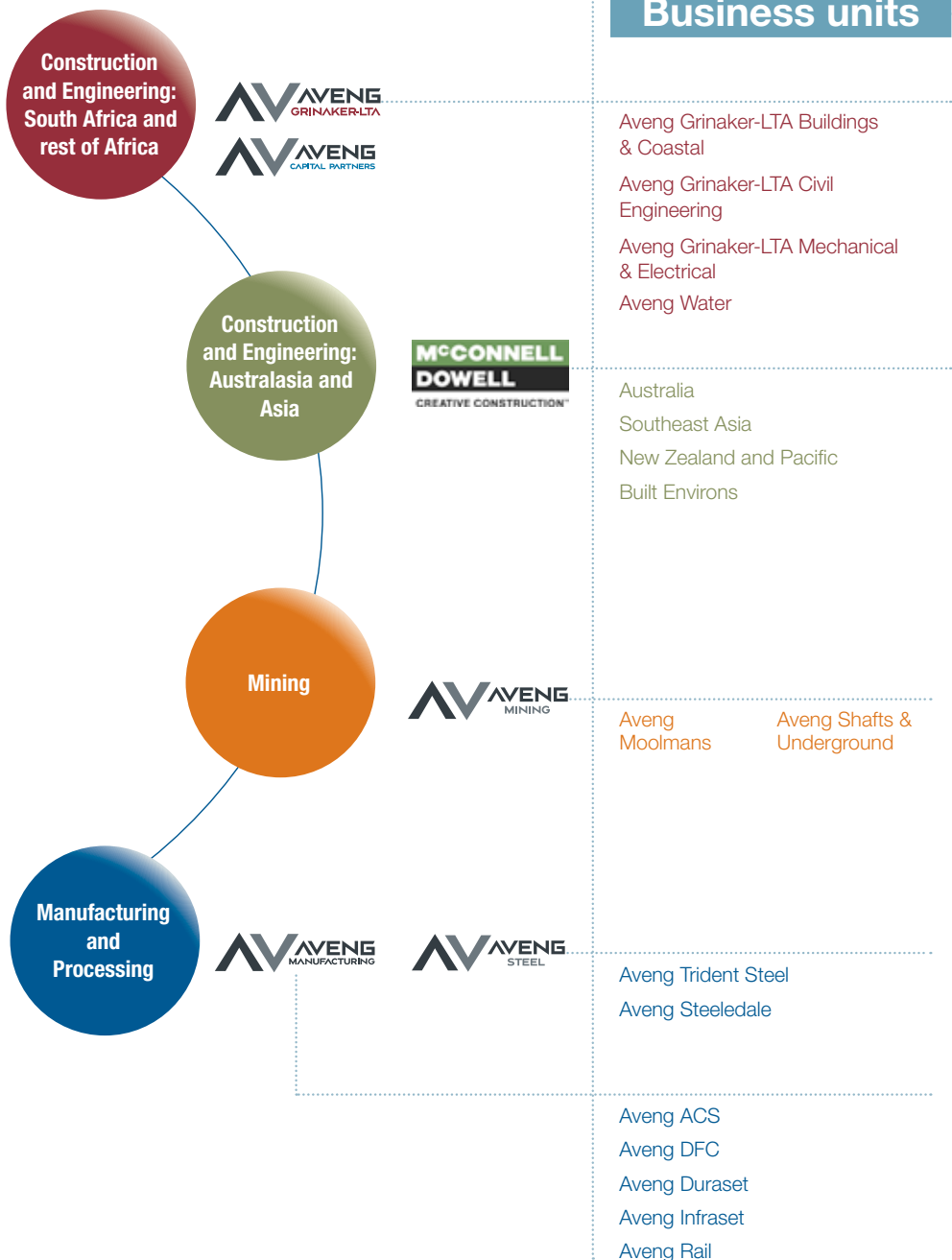
Water

Reticulation, effluent and dams



Process & Industrial

Buildings and plant



Business units closed during the year:
Aveng Engineering, Aveng Facades and Aveng Steel Fabrication.

Our footprint



Africa > 60% of revenue

Australia, New Zealand and Pacific > 25% of revenue

Southeast Asia > 10% of revenue



◆ Aveng operates in a diverse range of sectoral and geographic markets. Our primary geographic markets are southern Africa and Australia and we leverage our presence in these markets to pursue growth opportunities.

Market review

Aveng operates mainly in South Africa and other markets in sub-Saharan Africa, Australasia and Southeast Asia. Operating conditions in these markets remain difficult due to the sustained global economic downturn and intense competition.

Infrastructure investment

South Africa

The South African construction industry continues to be impacted by low levels of public sector investment in major infrastructure programmes and the sustained downturn in commodity prices, although Aveng has benefited from growth opportunities in the commercial, residential and healthcare building sectors. Public sector expenditure on transport, energy and water infrastructure is contributing to an increase in opportunities in these sectors as the government addresses inadequate maintenance of transport infrastructure and undersupply of potable water and energy facilities.

Australasia and Southeast Asia

The completion of major oil and gas projects in 2015 marked the end of a decade-long resources boom in Australia. This has been partially offset by increased government expenditure on transport, power and water infrastructure.

The New Zealand construction market remains steady, with road and water projects driven by urban developments in Auckland and the Christchurch rebuild.

Urbanisation and population growth continue to underpin growth in Southeast Asian infrastructure markets which have also been impacted by a decline in mining and oil and gas opportunities.

Mining

The global mining industry remains under considerable pressure. In South Africa, this has resulted in numerous mining contract cancellations, scope reductions and requests for margin discounts at continuing operations. This decline appears to have stabilised but mining contractors are unlikely to experience the benefits of a recovery in the industry for another 12 to 18 months.

Manufacturing

The manufacturing industry has been impacted by slow demand from the construction and mining sectors and reduced expenditure on rail maintenance. Aveng has expanded into new geographic and product sectors to mitigate weakness in its traditional markets.

The South African steel market has been adversely impacted by lower priced imports from China, coupled with poor domestic demand and excess capacity in global markets. Volumes stabilised in the second half of the year as international prices increased but project opportunity in the domestic market remains subdued.

More detailed information on Aveng's markets and operating environment is available in the executive review on pages 40 to 51 and the operational reviews on pages 52 to 74.



Our business model

STRATEGY

Aveng optimises its business model through the effective execution of its strategy to achieve its business objectives and vision.

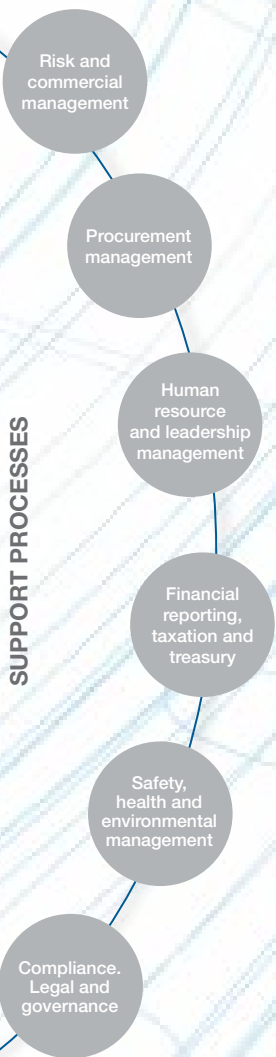


Aveng's strategy is being executed in three phases:

- Recover and stabilise – largely complete
- Position for profitable growth – currently underway
- Realise growth and sustain profitability – currently underway

Additional information on Aveng's strategy is available on pages 28 to 34.

SUPPORT PROCESSES



OUTPUTS

Key service and product solutions

Engineering (design and construct)

- Buildings
- Rail construction
- Airports
- Bridges
- Roads
- Tunnels
- Marine infrastructure/ports
- Earthworks
- Piling and lateral support
- Pipelines
- MEP installation
- Dams
- Mine shafts and underground development
- Surface mining
- Oil & Gas plants and pipelines
- Automation and control installation
- Water treatment plants

Operate and maintain services

- Facilities management
- Contract mining
- Mechanised track maintenance
- Automation and control support
- Valve repair

Manufactured products

- Asphalt and binders
- Concrete building supplies
- Geotech products
- Rail machinery
- Automation and control systems
- Vertical and horizontal supports
- Valves and submersible pumps
- Pipe fabrication

OUTCOMES

Impact on stakeholders

Financial

- Turnaround in operating profit due to improved performance by Aveng Grinaker-LTA
- 48% improvement in headline loss per share
- 37% improvement in gross margin to 7,4%
- Sale of property portfolio strengthened liquidity
- Order book remained stable at R28,1 billion

Human

- 33% reduction in the Group's employee complement due to restructuring
- Effective performance management
- Strong improvement in safety performance
- 11% employee wellness programme engagement

Social and relationship

- B-BBEE level 2 (valid until October 2016)
- R12,3 million invested in main CSI projects
- Increased engagement with shareholders, employees and labour
- Continuous engagement with all stakeholders
- R316 million tax contribution

Intellectual

- Brand equity of established businesses, products and process knowledge
- Competitive advantage in water technology and mega project capability and experience
- Innovative building methods reduce cost and increase client value
- Asset management strengthens liquidity

Manufactured

- Higher percentage of mining fleet idle due to project cutbacks; ready to be deployed when opportunities arise
- Optimised manufacturing processes to prepare for profitable growth
- Invested in higher margin products

Natural

- Two major environmental incidents (2015: four)
- Responsible management of raw material inputs mitigates environmental impact
- Continuous improvement in data accuracy
- Improved scores in Carbon and Water Disclosure Projects

Our capital capabilities

Our capital analysis provides insight into the resource capabilities and challenges the Group faces to ensure that Aveng has the required resources to execute its strategy and adapt its business model accordingly. The analysis below sets out a synopsis of the current status of the capabilities of the Group and its aspirations to build the capabilities necessary to effectively execute the Group's strategy.



Financial capital

The measure of Aveng'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.

The *recover and stabilise* phase of the strategy is largely complete and was characterised by the following outcomes:

Liquidity

- ◆ The issue of a convertible bond for R2 billion in 2014.
- ◆ The disposal of the Electrix business in 2015.
- ◆ The sale of the Group's property portfolio in 2016.
- ◆ The proposed sale of the Group's infrastructure investments subsequent to 30 June 2016.

Cash flow

The cash flow performance in 2016 was underpinned by the utilisation of advance payments and the repayment of an advance linked to the QCLNG contract. Cash flow in the South African operations remains strong and contributes to the Group's financial health.

Borrowings

Borrowings have increased with part of the QCLNG advance being repaid with debt.

At 30 June 2016 Aveng had R1,7 billion of liquidity headroom. The Group has access to adequate banking facilities.

Contracts

The Group ensures that contracts entered into are viable from a liquidity perspective and that the Group is not exposed to liquidity risk when carrying out its obligations.

Additional financial commentary is provided in the executive review on pages 40 to 51.



Human capital

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

An intensive continuous 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 reward systems and the 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. Notwithstanding the challenge posed by the shortage of highly experienced and skilled staff required in the industry, there is a clear need for transformation of businesses. Aveng recognises the need to be sensitive to socio-economic development policies, while harnessing skills over a vast geographic spread of projects.

Through the Aveng DNA, the Group aspires to a culture of honesty, safety and accountability in all we do.

A number of our strategic focuses include developing and retaining our people through communication, skills development, performance management and culture management.

Refer to pages 30 and 46.

Further insight into our people, their wellbeing and transformation initiatives and performance is provided in the human resources, safety, health and wellness and transformation sections of the sustainability overview available at www.aveng.co.za



The Aveng DNA defines our aspirational culture, values and desired behaviour and is the foundation of the key focus areas of our people management.





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 is available on pages 20 and 21.



Intellectual capital

The corporate memory and know-how of Aveng's construction, engineering and manufacturing processes are at the cornerstone of the Group's competitive advantage in the industry.

Over 125 years of development and innovation, the Group has established capabilities and expertise in the sectors in which it operates. These include the mega project capabilities of McConnell Dowell, specialised and broad-based project capability and expertise of Aveng Grinaker-LTA, deep-level shaft sinking and surface mining capabilities of Aveng Mining, a technology advantage in Aveng Water and the automotive, steel and other patents and brands of Aveng Steel and Aveng Manufacturing. The focus of the Group is on the profitable commercialisation of these capabilities, areas of expertise and innovation.



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 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 occasionally pursued.

Within the South African and Australian construction businesses most manufactured capital is project specific and therefore factored into project capital expenditure decisions. It is usually disposed of thereafter unless it can be used on other 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 pipework for industrial plants and components for the new South African coal-fired power stations.

The Aveng Manufacturing operating group has a variety of plant, with varying age, and a few examples of modern, state-of-the-art technology, such as paving and roof tile facilities. Various of these facilities are currently operating at capacity. The Group is investing in increasing capacity and increasing efficiencies. Similarly, mining assets operate within accepted value-life expectancy and maintenance levels. Where costs to run and maintain are not sustainable, these areas are reviewed for focused capital investment. Idle fleet in the mining business is well maintained and ready for future deployment at new contracts or as part of the Group's replacement programme.



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 highly sensitive 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 with 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.

Further insight into our environmental initiatives and performance is provided in the environmental section of the sustainability overview available at www.aveng.co.za.



Additional insight into our intellectual and operational activities is available in the executive review on pages 40 to 51 and the operational reviews on pages 52 to 74.



Board of directors

Appointed: July 2012



Mahomed Seedat (60)
Independent non-executive chairman
BEng (Electrical), PMD, GCC
Chairman of the Board
Chairman of social, ethics and transformation committee
Member of remuneration and nomination committee; safety, health and environmental committee; investment committee; risk committee and tender risk committee

Appointed: December 2013



Eric Diack (59)
Independent non-executive director
BAcc, CA(SA), AMP Harvard and UCT
Chairman of audit committee and investment committee
Member of risk committee and tender risk committee

Appointed: March 2011



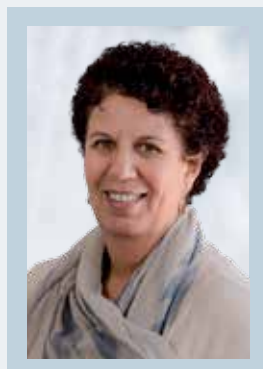
Peter Erasmus (63)
Independent non-executive director
Pr Eng, BSc (Civil) (Hons), BCom (*cum laude*), MSAICE
Chairman of risk committee
Member of tender risk committee

Appointed: November 2015



Sean Flanagan (56)
Independent non-executive director
BSc (Building)
Member of the tender risk committee

Appointed: September 2009



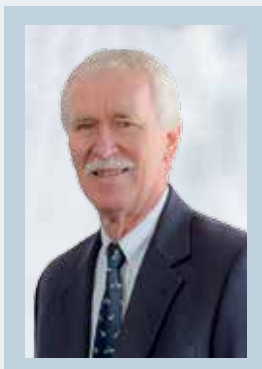
May Hermanus (56)
Independent non-executive director
BSc (Geology), MSc (Physical Metallurgy), Takemi Fellow, Harvard University
Chairman of safety, health and environmental committee

Appointed: August 2015



Philip Hourquebie (63)
Independent non-executive director
CA(SA), BCom (Hons), BAcc
Member of investment committee and audit committee

Appointed: July 2012



Michael Kilbride (64)
Independent non-executive director

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

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

Appointed: September 2014



Adrian Macartney (48)
Group CFO

BCom, BCompt (Hons), CA(SA)

Member of executive committee and tender risk committee

Appointed: October 2007



Juba Mashaba (50)

Group executive director

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

Member of executive committee

Appointed: December 2010



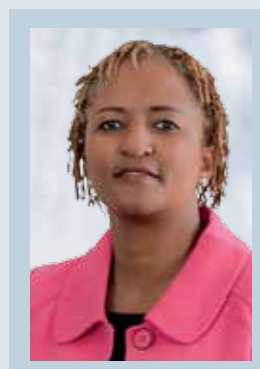
Thoko Mokgosi-Mwantembe (55)
Independent non-executive director

Dip Education (Swaziland), BSc (Swaziland), MSc (UK), SEP (Harvard), MCRP (IMD)

Chairman of remuneration and nomination committee

Member of social, ethics and transformation committee

Appointed: January 2014



Kholeka Mzondeki (48)

Independent non-executive director

BCom ACCA (UK)

Member of audit committee and social, ethics and transformation committee

Appointed: September 2010



Kobus Verster (50)

Chief executive officer

BCom (Hons), MBL, EMP

Member of executive committee and tender risk committee

Executive directors, key and senior management



Kobus Verster (50)
Chief executive officer
26 years' industry and related experience.
Six years with Aveng.



Juba Mashaba (50)
Group executive director
21 years' industry and related experience.
Nine years with Aveng.



Adrian Macartney (48)
Group CFO
22 years' industry and related experience.
Two years with Aveng.



Hercu Aucamp (48)
Managing director of Aveng Steel
27 years' industry and related experience.
Five years with Aveng.



Chris Botha (44)
Managing director of Aveng Grinaker-LTA
23 years' industry and related experience.
Three years with Aveng.

Executive directors, key and senior management at 5 August 2016.



Scott Cummins (54)

Managing director of McConnell Dowell Corporation Ltd

26 years' industry and related experience.

Joined Aveng in September 2015.



Solly Letsoalo (54)

Managing director of Aveng Manufacturing

31 years' industry and related experience.

Seven years with Aveng.



Stuart White (52)

Managing director of Aveng Mining

35 years' industry and related experience.

35 years with Aveng.



Dharmesh Kalyan (49)

Managing director of Aveng Capital Partners

26 years' industry and related experience.

Five years with Aveng.



Grant Stock (47)

Commercial executive

21 years' industry and related experience.

One year with Aveng.



Michelle Nana (48)


Company secretary

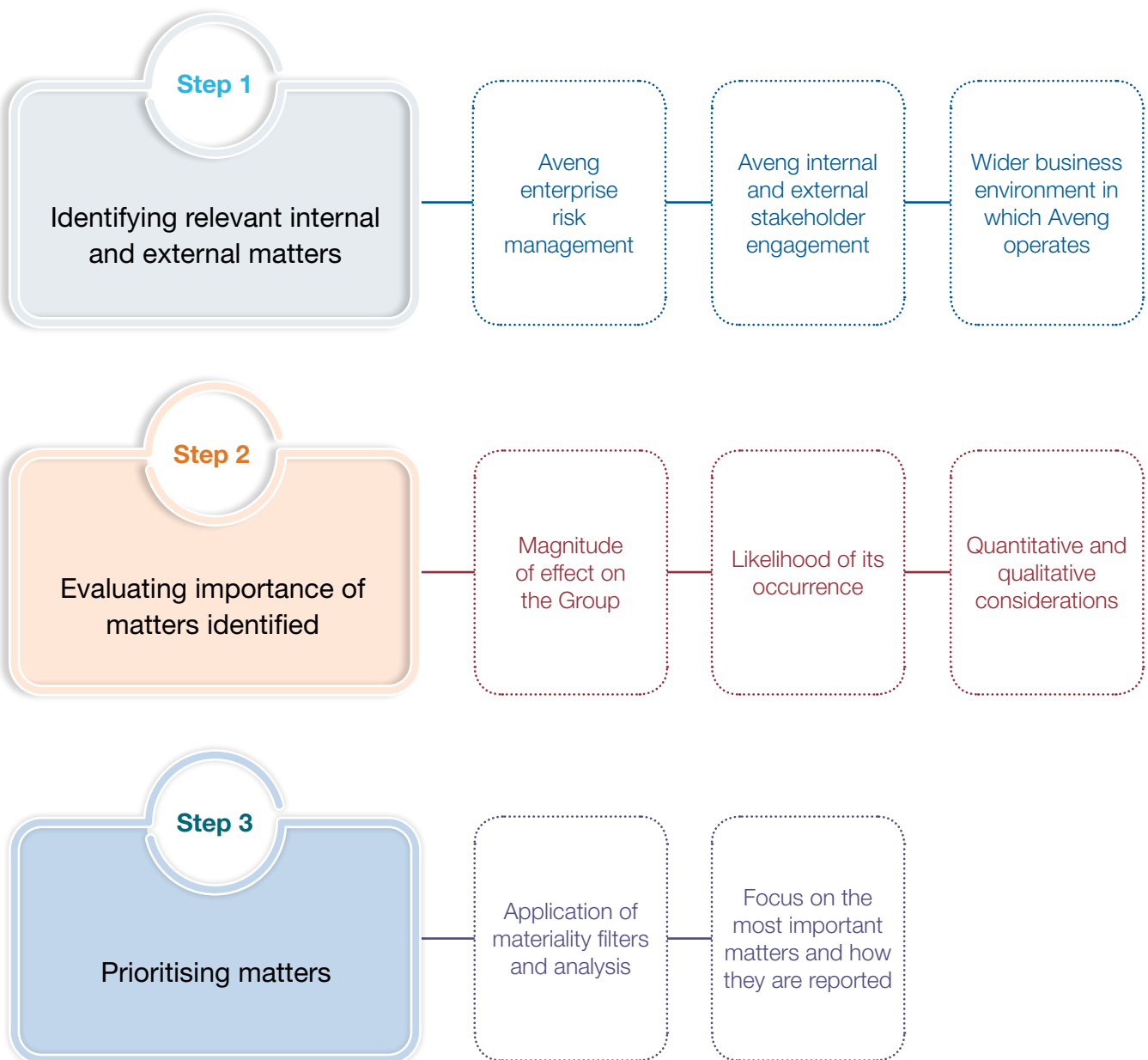
14 years' industry and related experience.

Four years with Aveng.

Material matters determination process

Aveng has formalised and strengthened its ability to identify, evaluate and manage risks and opportunities and, as a consequence, the Group has made significant progress in mitigating risk, while leveraging opportunity.

Aveng defines materiality of matters for reporting purposes as: matters that materially affect the Group's ability to create and sustain value over the short, medium and long term. Aveng's material matters determination process, largely informed by the International Integrated Reporting Council (IIRC) guidance, is illustrated below, followed by brief commentary on each element. The specific material matters are discussed further on pages 24 to 26. 



Identifying relevant internal and external matters

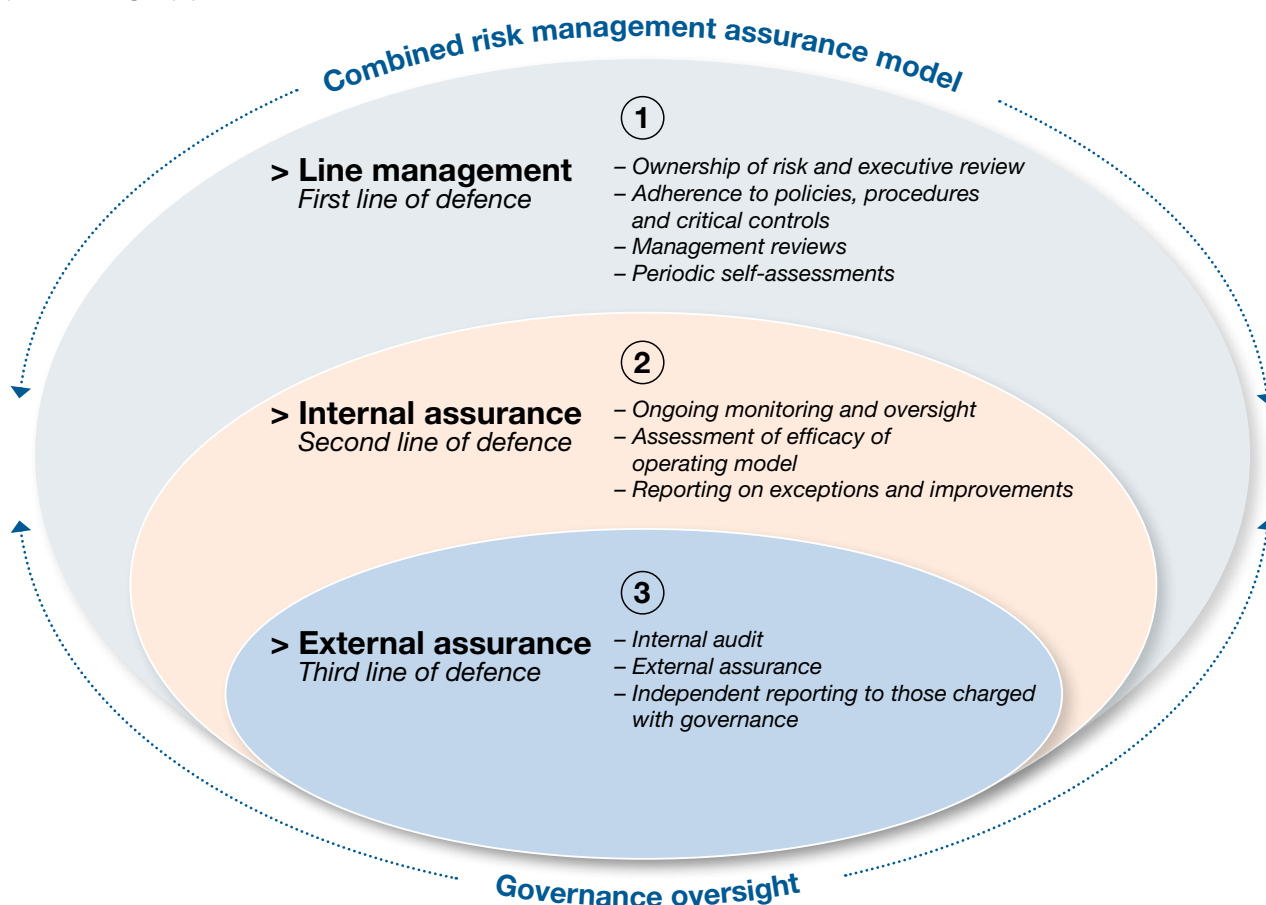
Aveng enterprise risk management

Risk is inherent 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 intrinsic 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.

Aveng continuously reviews and improves risk management processes and has adopted the concept of “three lines of defence” to strengthen risk management and ensure adequate assurance levels. The three lines of defence jointly form the Group’s combined risk management assurance model. The levels of assurance obtained from each line of defence need to be optimally balanced and assurance levels are currently shifting from the third line and second line in certain areas in order to enhance ownership and management of risk and control compliance by first-line management.

Risk management approach

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 and compliance with group policies.



As the first line of defence, operational management has ownership, responsibility and accountability for assessing, controlling and mitigating risks, while maintaining effective internal controls to identify risks and ensure accurate 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 timely 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 on improvement strategies. In addition, regulatory compliance is monitored and guidance provided on compliance requirements.

Material matters determination process continued

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 appropriateness of financial results and certain non-financial data.

Governance oversight

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

The risk committee oversees the activities of all three lines of defence and receives reports from the group commercial executive on the efficacy of the three lines of defence model, with the audit committee receiving reports from internal and external audit (third line of defence). As the tender approval process is a critical process in the project lifecycle, this process has been reviewed and bolstered. A new layer of oversight has been added whereby tenders which previously went directly to the board tender committee (a subcommittee of the board risk committee), now firstly go to an internal Aveng group tender executive committee. This internal committee comprises the group CEO, CFO, commercial executive, legal counsel, risk manager as well as two external construction industry experts. The internal Aveng committee reviews all major bids and high-risk projects to satisfy itself that all technical, programme, commercial and project risks are adequately dealt with in the preparation of the bid. If this committee approves any tender that is rated as requiring risk committee approval, it is then presented to the board tender committee which must satisfy itself that appropriate business processes have been followed in the preparation of the bid and that risks have been considered and appropriately transferred or mitigated prior to bid submission. 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 board risk committee reviews all group material risks, major and problematic 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 risk committee. Concerns raised by the committee are communicated to the relevant operating groups for management actions. Lessons learnt of underperforming or highly successful projects are presented to the risk committee, thereby providing a feedback loop to enable continuous improvement in processes and project execution.

The audit committee oversees the activities of the external and internal audit functions and receives input on the adequacy 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.

Key business risks

Key business risks are identified as internal or external risks that have the potential to cause significant financial loss, or affect the safety and wellbeing of employees, matters which may fundamentally undermine the Group's competitive position and adversely impact its reputation. A group 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 are:

- ◆ Safety (number 1 in 2015)
- ◆ Macro-economic environment and securing quality work (up from number 4 in 2015)
- ◆ Management of working capital and liquidity (down from number 2 in 2015)
- ◆ Operational performance (down from number 3 in 2015)
- ◆ Transformation; and labour instability and costs in South Africa (up from number 7 in 2015)
- ◆ Talent management (down from number 5 in 2015)
- ◆ Reputation (number 6 in 2015)

Stakeholder engagement

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



Aveng also recognises the need to proactively restore the confidence and trust of its key stakeholders by addressing reputational damage that may have been caused by the findings of the Competition Commission's investigation into anti-competitive behaviour in the construction industry, and the relative underperformance of the business in recent years. The Group has engaged with key internal and external stakeholders to re-establish and build relationships based on trust.

Aveng strives to communicate progress with the *recover and stabilise, position for profitable growth, and realise growth and sustain profitability* phases of the Group's strategy in a clear and transparent manner. Effective execution of this strategy will be core to rebuilding the Group's reputation as a sound business with a management team able to fulfil its commitments. A sustained improvement in the underlying performances of the majority of Aveng's business units confirms that the *recover and stabilise* phase of the strategy has been largely achieved.

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

A stakeholder engagement plan and report-back process have been implemented in which operating groups identify their material stakeholders based on their current or prospective positive or negative impact on the business. There is a specific focus on how effectively we engage with each stakeholder and how we can elevate the engagement to the next level to build and sustain stronger relationships.

The table below sets out existing methods of engagement with our key stakeholders and their issues and expectations:

Stakeholders	Nature of engagement	Stakeholder issues and expectations
Customers and clients Private and public across all sectors covered in the Group's business model. Refer to pages 10 to 13. 	Customer meetings and site visits, conferences, events and exhibitions, written communication, contracts and service level agreements	<ul style="list-style-type: none"> ◆ Commercial issues / claims ◆ Delivery on tenders / bids ◆ Relationships ◆ Reputation management (financial performance and negative coverage)
Employees South African operations – 13 495 (salaried and waged employees) Australian operations – 3 453 (salaried, project and waged employees)	Culture surveys and wellness days, roundtable engagement forums and training sessions, safety inspections, performance reviews, leadership conferences, employee publications and bulletins, company Intranet, and senior management interaction	<ul style="list-style-type: none"> ◆ Employee engagement ◆ Retention and talent identification ◆ Cohesive high-performance culture and values
Shareholders and investment community South Africa-based (74%) North America-based (13%) Europe-based (8%) Lenders and analysts	Financial reports, trading updates and statements, results presentations and roadshows, AGM, site visits, webcast sessions, individual meetings, the website, corporate newsletters and conferences	<ul style="list-style-type: none"> ◆ Return on investment ◆ Claims recovery ◆ Strength of balance sheet ◆ More regular engagement ◆ Brand positioning ◆ Reputation management (financial performance)
Trade unions NUM, NUMSA, UASA, AMCU and Solidarity in South Africa AWU and CFMEU in Australia	Each operating group has its own agreements with its respective trade unions and engages through various methods and at various intervals	<ul style="list-style-type: none"> ◆ Tough labour relations environment ◆ High propensity for strikes, including unprotected strikes ◆ Proliferation of unions
Contractors, suppliers, service providers and business partners Throughout the value chain across all sectors covered in the Group's business model. Refer to pages 10 to 13. 	Supplier meetings, workshops, presentations, industry body meetings, events and exhibitions, project steering committees, site and project visits, contracts and service agreements and project process meetings	<ul style="list-style-type: none"> ◆ Impact of procurement, EE and SD decisions on the revised B-BBEE scorecard in South Africa ◆ Repercussions of not complying with revised codes ◆ Open and fair tender process ◆ On time payments ◆ Sustainable business relationships
Government and regulatory bodies National, provincial, state, regional and local government, parastatals, construction regulatory boards, Competition Commission, Construction Sector Charter Council, JSE, Fair Work Commission	Submission of compliance reports, formal and informal meetings, consultations and workshops (e.g. SAFCEC-led industry CEO forum), conferences, seminars and presentations, and written communication	<ul style="list-style-type: none"> ◆ Compliance to legislation (i.e. labour relations, environmental, competition, etc.) across various geographies and industries in which Aveng operates ◆ Inconsistent application of legislation and policies at various levels of government structures
Industry SAFCEC, MBSA and SEIFSA	Representation on key industry bodies, leadership meetings, correspondence, newsletters and sponsorships	<ul style="list-style-type: none"> ◆ Influence of industry bodies on public policy

Material matters determination process continued

Business environment

Aveng operates in a challenging external environment across various key sectors and markets.

Some of the key drivers affecting the Group's sectoral and geographic markets are discussed below:

The economic outlook for South Africa remains subdued as a result of sustained weakness in the global economy and factors unique to the domestic economy, such as policy uncertainty and labour instability. The prolonged delay in public sector infrastructure investment and the downturn in commodity prices – which has led to the cancellation or postponement of private sector capital expenditure in the mining industry – have adversely impacted many of Aveng's key sectors. This has increased competition for a limited number of available projects, placing more pressure on profit margins.

Aveng has mitigated the impact of these external impacts by diversifying into market sectors that offer growth opportunities, including the commercial and industrial building, power, municipal infrastructure and water treatment markets, as well as expanding into geographic markets beyond South Africa and strengthening engagement with key clients.

Global economic volatility and the prolonged downturn in commodity and oil prices have also slowed the pace of growth in many economies in the rest of Africa.

This has delayed the momentum of Aveng's strategy to expand into markets north of South Africa. However, the Group has continued to secure projects in sub-Saharan Africa and the region offers potential medium term to long term opportunities as growing middle-class populations fuel the demand for infrastructure development and increased power generation.

Investment in the mining and resources sector in Australasia and Asia has declined significantly, in line with global economic trends.

However, investment in transport and other social infrastructure in Australia and Southeast Asia has increased, particularly in Singapore where the Land Transport Authority intends to double the current rail network by 2030. Competition for available work is also a characteristic of these markets.

The New Zealand economy has remained relatively buoyant, with opportunities arising from an extensive public sector infrastructure development programme.

Evaluating importance of matters identified

Perspectives that inform the material matters include:

- ◆ Aveng risk management
- ◆ Stakeholder engagement
- ◆ The business environment, as previously defined.

Magnitude of effect on the Group

Once the relevant material issues are identified, these issues are assessed based on their potential impact on Aveng. The assessed impacts of these material issues focuses on:

1. Impact on the safety of our people
2. Loss of profit or increase in capital cost
3. Delays in achieving strategic business objectives
4. Legal ramifications
5. Environmental impact
6. Reputational damage.

Likelihood of occurrence

These issues are assessed according to the likelihood that they will occur based on the following ranges:

1. Rare chance of occurrence (1% – 3%)
2. Unlikely chance of occurrence (3% – 10%)
3. Possible chance of occurrence (10% – 30%)
4. Likely chance of occurrence (30% – 60%)
5. Almost certain (60% – 100%)

In instances where an issue has already occurred, lessons learnt are undertaken to ascertain the likelihood of an issue re-occurring and ensure that correct processes are implemented to mitigate reoccurrence.

Quantitative and qualitative considerations

Quantitative considerations focus largely on financial impacts (loss of profit), an increase in capital cost and the ability to achieve business objectives. Qualitative considerations focus primarily on safety, legal, environmental and reputational impacts. These are assessed based on the likelihood of occurrence.

Prioritising matters

After identifying potential material issues, Aveng performed a correlation exercise. Several sources were consulted to

determine how often the risks already identified appeared in other sources that relate to Aveng and the industries it operates in. These included investor feedback, mega-trends, emerging risks and opportunities, Aveng strategy and business model, and geographic and sector outlook. The more prevalent the risks and opportunities were in different sources, the greater the evaluation of these issues against qualitative and quantitative factors which informed the likelihood and the impact of these matters on Aveng.

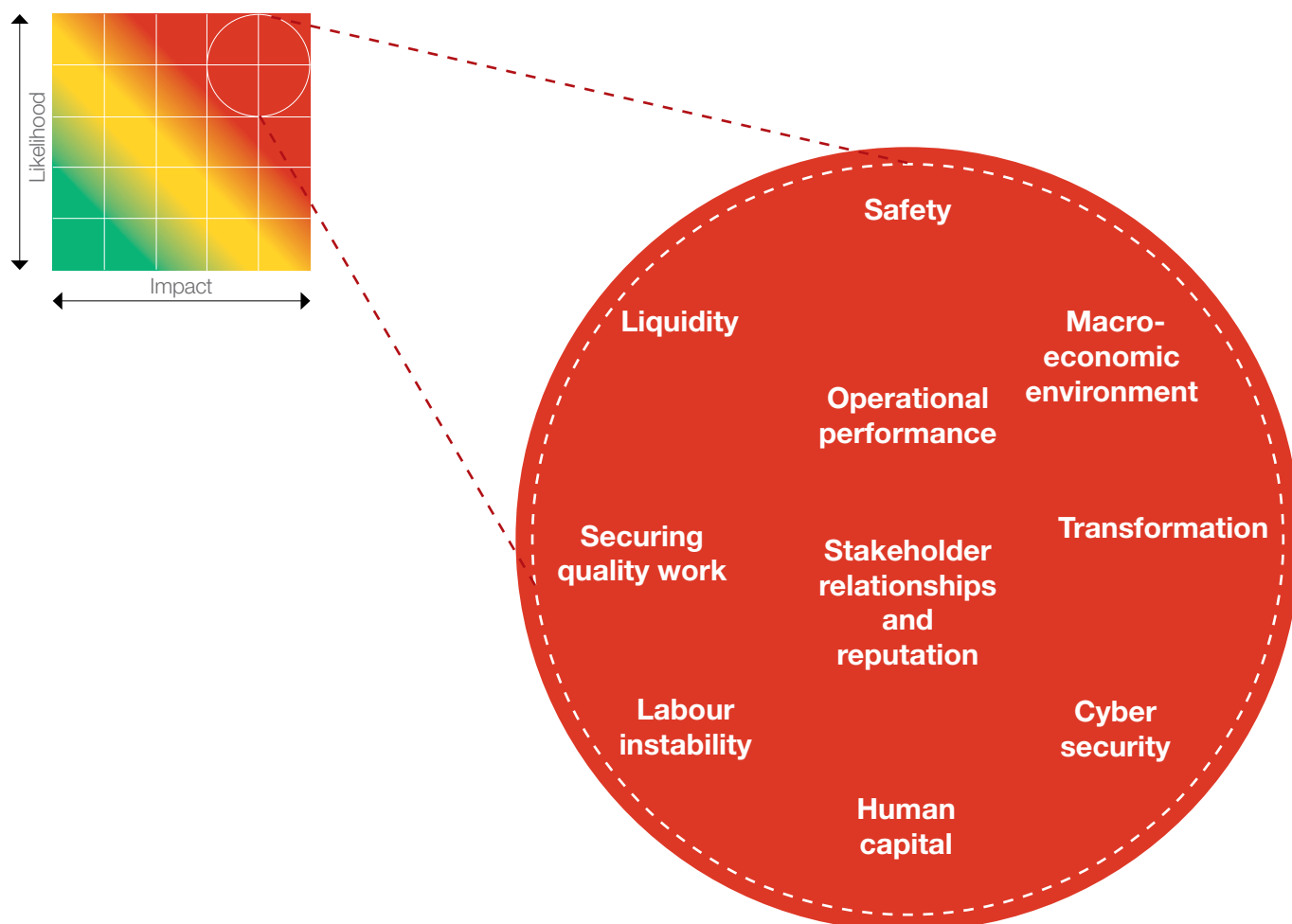
Furthermore, the Board considered what constitutes material matters to the Group with further interrogation through various forums, such as the Board and board committee meetings.

The identified material matters were ranked based on their potential probability of occurring in the Group as well as their potential quantitative and qualitative impact to the Group.



The resultant matters were then plotted on a heat map to demonstrate that only the most material matters emerge and are discussed below in further detail.

Focus on the most important matters

The diagram below lists the top business risks emerging from the enterprise risk management for the period. These risks are discussed more fully on pages 24 to 26.



Material matters

Material matter		Strategic response
Controllable 1 	Safety Aveng employs a large workforce and is responsible for ensuring that its operations are safe for employees, contractors and clients. Employee safety and wellbeing is critical to our ability to embed a high performance culture and integral to the way we do business. Poor safety performance weakens productivity, and may attract regulatory sanction. Reputational damage may impact the Group's ability to procure work.	<ul style="list-style-type: none"> ◆ Improving the trend of visible felt leadership (VFL) to further entrench a safety culture ◆ Improving leading indicators such as near-miss reporting, potential for harm audits and VFLs / VMRs compared to prior years ◆ Increasing safety, health and environment management systems certification across the operating groups ◆ Increasing the use of the employee wellness programmes throughout the South African operations. <p>These measures have contributed to an improvement in the Group's AIFR to 2,7.</p>
Controllable 2 	Liquidity The Group's maintenance of sufficient working capital through the business cycle reduces exposure to refinancing and liquidity risk which influences credit facilities and the ability to raise cost-effective borrowings.	<ul style="list-style-type: none"> ◆ Successful in closing out a significant number of claims, particularly in the South African operations ◆ Robust working capital cash flow management and the completion of loss-making projects contributed to positive cash flow in the South African businesses and provided partial funding for McConnell Dowell ◆ Despite continued pressure from banks in South Africa and Australia, Aveng management achieved extensions on revolving credit facilities at Aveng Limited and working capital facilities for McConnell Dowell, with additional insurance bonding facilities ◆ Resizing and optimising the overhead across the Group had an initial negative cash impact in the final quarter of 2016 but will result in a positive cash flow impact in future.
Uncontrollable 3 	Macro-economic environment As the Group operates across different sectors and geographies, it is affected by economic dynamics beyond the control of Aveng. The South African economy, mining and steel sectors are forecast to remain subdued, negatively impacting the businesses operating within these environments. There are, however, infrastructure opportunities within Southeast Asia, New Zealand and Australia.	<ul style="list-style-type: none"> ◆ Rightsized the Group by optimising the overhead and aligning capacity with available opportunities ◆ Maintaining key stakeholder relationships enables conclusion of claims and winning of new work in a depressed cycle ◆ Closed non-performing business units and placed other factories on care and maintenance ◆ Adapted the Group's approach to tendering and ensuring that tendered margins are sustainable ◆ Greater focus on product type and range ◆ Renewed focus on efficiencies and productivities ◆ Improve strategic procurement to lower cost base.

* Specific to South Africa



Increase in potential impact



Decline in potential impact



No change in potential impact

Material matter		Strategic response
Controllable	<p>4 </p> <p>Operational performance Operational performance drives the financial performance of the Group.</p>	<ul style="list-style-type: none"> ◆ Stabilised management of Aveng Grinaker-LTA resulting in improved financial performance ◆ Improved several first line of defence measures across the Group ◆ Appointed new MD and simplified management structures of McConnell Dowell ◆ Consolidated Aveng Shafts & Underground and Aveng Moolmans under Aveng Mining and aligned it with Aveng Moolmans' high-performance operating culture ◆ Focused on closing out loss-making projects ◆ Focused on improving efficiencies and productivities ◆ Maintained third line of defence (internal and external audits) across all Aveng business units.
Controllable	<p>5 </p> <p>Securing quality work Quality work drives revenue and strengthens the long term sustainability of Aveng as a global company.</p>	<ul style="list-style-type: none"> ◆ Increased focus on balancing order book growth against project risk profiles when tendering in regions and sectors ◆ Application of the three lines of defence model to improve tendering procedures ◆ Heightened focus on winning projects where the Group has a record of technical experience and successful execution ◆ Continued focus on key client relationships to promote negotiated contracts with equitable terms ◆ Constant focus on group synergies ◆ Proactive alignment of the Group's capacity with opportunities across its sectors and geographies.
Partially controllable	<p>6 </p> <p>Transformation* Aveng regained its level 2 B-BBEE rating based on its 2015 performance. However, the application of revised B-BBEE codes are likely to impact the Group's transformation rating, which may negatively impact its ability to secure projects in South Africa, particularly within the public sector.</p>	<ul style="list-style-type: none"> ◆ Implemented a three-year transformation strategy to ensure compliance with the revised codes ◆ Ensured operating group strategies are aligned with the requirements of the new codes ◆ Strengthened the focus on recruitment, in-house development and training and alignment with CSI initiatives ◆ Achieved performance improvements in the areas of management control, employment equity, preferential procurement and skills development.

* Specific to South Africa



Increase in potential impact







Decline in potential impact



No change in potential impact

Material matters continued

Material matter		Strategic response
Uncontrollable	<p>7</p> <p></p> <p>Labour instability* Industrial unrest in South Africa results in project delays and disruptions affecting safety, productivity and profitability.</p>	<ul style="list-style-type: none"> ◆ No major labour relations matters recorded in 2016 ◆ Implemented a proactive labour relations strategy with allowances in tenders for labour unrest ◆ Strike mitigation plans are in place at each business unit ◆ Increased line management engagement with labour and clients and less reliance on industrial relations management.
Controllable	<p>8</p> <p></p> <p>Stakeholder relationships and reputation The expectations of stakeholders can impact the Group's ability to create and sustain value. Negative perceptions may impact prospects for future work.</p>	<ul style="list-style-type: none"> ◆ Increased focus on stakeholder and employee engagement, including CEO and MD roundtable meetings ◆ Appointed an experienced group strategy and investor relations executive who will drive the positioning of Aveng with its shareholders and other market stakeholders ◆ Re-energised internal and external communications with appointment of strategic communications agency ◆ Regular engagement with industry forums ◆ Partnership with the Department of Trade and Industry to train emerging contractors.
Controllable	<p>9</p> <p></p> <p>Human capital People are the Group's most important asset, and various specialist skills are required to deliver projects successfully. Loss of critical skills affects performance and execution and has a negative impact on earnings and the long-term sustainability of Aveng.</p>	<ul style="list-style-type: none"> ◆ Strengthened and stable operational management is contributing positively to improved operational performance ◆ A succession model has been developed for the top 40 Aveng senior managers ◆ All senior team members across the Group have been assessed for competency, with specific interventions developed to address shortcomings ◆ Remuneration strategies have been implemented to ensure retention of high performers ◆ An Aveng culture survey has been undertaken in the South African operations.
New and controllable	<p>10</p> <p></p> <p>Cyber security Cyber attacks may lead to the distribution of sensitive business information and result in a loss of revenue and earnings. The World Economic Forum's Global Risk Landscape in 2015 ranked the threat of cyber attacks higher than food crises, failure of financial mechanisms or institutions, terrorist attacks, asset bubbles and profound social instability in relation to impact and likelihood.</p>	<ul style="list-style-type: none"> ◆ Aveng applies a layered defence approach to monitor and detect suspicious network activity and identify and mitigate attacks ◆ Cyber forensic third parties are employed to assist with detection, mitigation and investigation ◆ A security roadmap and measurement matrix has been developed to manage progress and focus areas ◆ Security awareness campaigns educate employees and build awareness of potential security threats ◆ A URL Targeted Threat Protection has been implemented, together with vulnerability management software (Nessus), to proactively monitor vulnerabilities within the Group ◆ Proactive monitoring and prevention of attacks occurs at critical perimeter ingress points using Intrusion Prevention System (IPS) with ad hoc in-house penetration testing on new services ◆ Disaster recovery plan and service level agreements with external suppliers are in place.

* Specific to South Africa



Increase in potential impact



Decline in potential impact



No change in potential impact

Phase one of Leonardo Towers in Sandton



The Leonardo

AVENG
GRINAKEP-LTA

Strategy



01 Recover and stabilise 2014 – 2016

Baseline disciplines

- ◆ Risk management
- ◆ Communication
- ◆ Strategy execution
- ◆ Skills development
- ◆ Manage performance

Performance initiatives

- ◆ Culture management
- ◆ Customer focus
- ◆ Profitable order book
- ◆ Cost management
- ◆ Liquidity and cash management



Position for profitable growth 2016 – 2019 02

- ◆ Capital allocation and portfolio optimisation
- ◆ Strengthen businesses in South Africa and Australia

- ◆ Enhance profitability and cash flow
- ◆ Leverage the client and industry delivery model
- ◆ Market expansion into Africa and Southeast Asia

Realise growth and sustain profitability 2018 – onwards 03

Shareholder value

- Growth in key regions and key operating groups and business units
- Capital allocation to support growth and optimisation
- Increase focus on profitability and cash flow generation
- Develop client and industry delivery model
- Strengthen business in South Africa and Australia through optimisation and margin focus
- Reliable dividend payer
- Responsiveness relative to current market condition / commodity cycle

Performance targets



Headline earnings growth > **Positive real growth**



Operating free cash flow > **Positive throughout cycle**

Return on invested capital > **Minimum of 15%**

A responsive strategy

The Aveng strategy seeks to respond robustly and proactively to the material matters facing the Group in the short, medium and long term. The strategy is reviewed regularly and has been refined in the past year taking changing market conditions into account.

































The short term *recover and stabilise* phase is largely complete, although some elements continue to be executed. Further progress has been made in clarifying the medium term and longer term *position for profitable growth* and *realise growth and sustain profitability* phases.

Additional information on the execution of the strategy is provided in the executive review on pages 44 to 46. 



Recover and stabilise

Aveng continues to execute its strategy in three distinct phases. Key outcomes of the *recover and stabilise* phase are briefly demonstrated below:

	Aveng Grinaker-LTA	McConnell Dowell*	Aveng Mining	Aveng Manufacturing*	Aveng Steel	ACP
Turnaround				N / A		N / A
Quality of order book				N / A	N / A	N / A
Liquidity and cash flow						
Claims resolution				N / A	N / A	N / A
Underperforming contracts and businesses						N / A
Fixed cost reduction and restructure						N / A
Stability and capacity of management						

 Achieved  Partially achieved  Not yet achieved

The successful execution of the *recover and stabilise* strategy was reflected in the following achievements in 2016:

- ◆ Significant improvement in the performance of Aveng Grinaker-LTA
- ◆ Completion of loss-making or non-contributory projects at Aveng Grinaker-LTA
- ◆ Settlement of commercial claims in Aveng Grinaker-LTA and Aveng Mining
- ◆ Increased percentage of projects executed at, or above, tendered margins
- ◆ Aveng Moolmans and Aveng Shafts & Underground integrated into Aveng Mining
- ◆ Improved working capital management at Aveng Steel contributed to liquidity
- ◆ Restructuring of McConnell Dowell under new management to improve operational performance
- ◆ Realisation of R444 million in cost savings during a second wave of cost optimisation and efficiency improvement measures
- ◆ Actions completed for further savings in 2017
- ◆ Improvement in several first line of defence risk measures and embedding of accountability in all operations to improve project execution
- ◆ Performance management strengthened alignment of operating group management with group strategy
- ◆ Stronger customer focus and engagement.

* McConnell Dowell and Aveng Manufacturing are key focus areas in the next strategic phase.

Strategy continued

An overview of strategic initiatives, progress and future focus areas follows:

Work stream	2016 report back	2017 focus area
<i>Risk management</i>	<ul style="list-style-type: none"> ■ Improved several first line of defence measures ■ Maintained third line of defence (internal and external audits) across all business units. 	<ul style="list-style-type: none"> ■ Further entrench first line of defence measures ■ Embed accountability at all operations for effective project execution.
<i>Communication</i>	<ul style="list-style-type: none"> ■ Appointed experienced strategy and investor relations executive ■ Strengthened external and internal communications with professional expertise ■ Increased employee engagement, including CEO and MD roundtable meetings ■ Strengthened engagement with key shareholders ■ Ongoing engagement with government and industry forums. 	<ul style="list-style-type: none"> ■ Pursue continuous improvement in communication at all levels with internal and external stakeholders ■ Drive positioning of Aveng with shareholders and other market stakeholders ■ Respond to government requirement for specific interventions to address issues of transformation, employment equity and past collusive behaviour.
<i>Strategy execution</i>	<ul style="list-style-type: none"> ■ <i>Recover and stabilise</i> largely completed ■ Ongoing implementation of <i>position for profitable growth</i> phase ■ Board strategic review to assess liquidity position 	<ul style="list-style-type: none"> ■ Focus on <i>position for profitable growth</i> phase.
<i>Skills development</i>	<ul style="list-style-type: none"> ■ New leadership appointed at McConnell Dowell ■ Stable operational management across all other operations ■ Succession plan developed for top senior managers ■ Ongoing competency assessments and interventions to manage shortcomings ■ Remuneration strategy to retain high performers ■ Aveng culture survey undertaken. 	<ul style="list-style-type: none"> ■ Maintain focus on recruitment and retention strategy ■ Address matters raised in Aveng culture survey ■ Continue training and upskilling staff.
<i>Manage performance</i>	<ul style="list-style-type: none"> ■ Stabilised performance of Aveng Grinaker-LTA ■ New management of McConnell Dowell focused on performance management ■ Integrated mining businesses under sound management team of Aveng Moolmans ■ Improved efficiencies and productivity across all operations ■ Closed out loss-making projects and focused on securing new work at acceptable margin. 	<ul style="list-style-type: none"> ■ Preserve and improve profit margins ■ Ensure management structures at McConnell Dowell and Aveng Mining are performing optimally ■ Further entrench first line of defence measures and embed accountability ■ Optimise all production processes at Aveng Manufacturing and entrench new products ■ Continue training in critical commercial, engineering and safety skills.
<i>Culture management</i>	<ul style="list-style-type: none"> ■ Aveng culture survey undertaken ■ Leveraged Aveng DNA to inspire high-performance culture and cost-conscious mindset. 	<ul style="list-style-type: none"> ■ Address matters raised in Aveng culture survey.

Work stream	2016 report back	2017 focus area
<i>Customer focus</i>	<ul style="list-style-type: none"> ■ Focused on key relationships to promote contracts ■ Aveng Grinaker-LTA established partnerships with provincial and municipal authorities to facilitate expansion into local infrastructure project market ■ Aveng Mining worked with clients to reduce project costs and recover margin losses ■ Aveng Manufacturing strengthened client engagement and entered into partnerships to serve clients more effectively. 	<ul style="list-style-type: none"> ■ Maintain high level focus on key client engagement to secure quality work and sustain sound relationships.
<i>Profitable order book</i>	<ul style="list-style-type: none"> ■ Increased focus on balancing order book project risk profiles when tendering in regions and sectors ■ Heightened focus on sectors where the Group has experience and a record of successful project execution ■ Alignment of the Group's capacity with opportunities across its sectors and geographies. 	<ul style="list-style-type: none"> ■ Maintain focus of Aveng Grinaker-LTA on lower risk domestic retail and commercial building sector ■ Increase focus on water sector and operations and maintenance work in mechanical, electrical and water sectors ■ Maintain focus on core competencies in McConnell Dowell with enhanced focus on project selection.
<i>Cost management</i>	<ul style="list-style-type: none"> ■ Continued focus on cutting costs in line with market demand ■ Integration of mining operations resulted in substantial cost savings ■ Aveng Mining heightened cost efficiencies to mitigate impact of work lost ■ Aveng Manufacturing restructured in alignment with lower levels of activity. 	<ul style="list-style-type: none"> ■ In low growth environment, maintain focus of South African operations on cost management ■ Strengthen focus of McConnell Dowell on project delivery at adequate margins.
<i>Liquidity and cash management</i>	<ul style="list-style-type: none"> ■ Completion of loss-making and non-contributory projects ■ Settlement of a number of claims ■ Robust working capital management in South African operations ■ Aveng Grinaker-LTA close to break-even. 	<ul style="list-style-type: none"> ■ Pursue resolution of QCLNG and GCRT claims ■ Maintain focus on cash flow management through operational excellence in projects and manufacturing ■ Achieve cash-positive position at McConnell Dowell ■ Conclude previously announced strategic transactions.

Strategy continued



Position for profitable growth

The table below provides a brief overview of the current position of Aveng's operating groups. It shows the general outlook for their markets, their strategic alignment and financial position as at 30 June 2016, and the actions that have been implemented to enable the Group to achieve its strategic objectives and financial targets by 2018.

Operating group	Business unit	Industry outlook	Strategic	Current financial	Actions
Aveng Grinaker-LTA	All	●	●	●	Continue to turnaround
McConnell Dowell	All	●	●	●	Restore returns
Aveng Engineering	E+PC	●	●	●	Closed
	Aveng Water	●	●	●	Retain
Aveng Mining	Moolmans	●	●	●	Improve returns
	Shafts & Underground	●	●	●	Improve operational performance
Aveng Steel	All	●	●	●	Divest
Aveng Manufacturing	ACS	●	●	●	Grow
	DFC	●	●	●	Grow
	Duraset	●	●	●	Turnaround
	Infraset	●	●	●	Grow
	Rail	●	●	●	Grow
Aveng Capital Partners	All	●	●	●	Realised part of value

- ◆ >15% ROIC
- ◆ Positive OFCF
- ◆ Positive real earnings growth

The second phase of the strategy, *position for profitable growth*, has commenced and the Group has made some progress in executing the phase. This is evidenced by the strengthening of its businesses in the key domestic markets of South Africa and Australia. Aveng has continued to rightsize its operating businesses in alignment with current market conditions and has implemented further substantial reductions in overheads, which will be fully realised in 2017.

The following strategic transactions have been, or are being, implemented:

- ◆ Sale of 70% of the Group's South African property portfolio
- ◆ Proposed sale of four of Aveng Capital Partners' infrastructure investments
- ◆ Proposed sale of Aveng Steeledale
- ◆ Discussions regarding the sale of Aveng Trident Steel and transformational options for Aveng Grinaker-LTA are ongoing and the market will be informed once there are material developments to report.

An overview of strategic initiatives, progress and future focus areas follows:

Objectives	2016 progress	2017 focus areas
<i>Capital allocation and portfolio optimisation</i>	<ul style="list-style-type: none"> ■ Capital investment at Aveng Manufacturing underway ■ Aveng Engineering and Aveng Facades closed ■ Aveng Steel Fabrication rationalised and amalgamated with Aveng Trident Steel ■ Aveng Water repositioned and set to leverage the advantage that Aveng has built in this market. 	<ul style="list-style-type: none"> ■ Close-out strategic transactions ■ Preserve cash and statement of financial position strength.
<i>Strengthen businesses in South Africa and Australia</i>	<ul style="list-style-type: none"> ■ Stabilised performance of Aveng Grinaker-LTA ■ Appointed new management at McConnell Dowell focused on performance management ■ Integrated mining businesses under sound Aveng Moolmans management ■ Improved efficiencies and productivity across all operations ■ Settled major claims in Aveng Grinaker-LTA and Aveng Mining ■ Focused on securing new work at acceptable margin. 	<ul style="list-style-type: none"> ■ Reverse the negative working capital cycle in McConnell Dowell ■ Settle the QCLNG and GCRT claims ■ Improve operational performance through project delivery and tender discipline ■ Maintain the focus on cash generation in the South African businesses ■ Focus on efficiency improvements and growth initiatives in Aveng Manufacturing and target improved return ■ Target growth in Aveng Mining as the sector commences a slow recovery ■ Further reduce the Group's cost base.
<i>Africa strategy</i>	<ul style="list-style-type: none"> ■ Slower pace of growth delayed momentum of expansion strategy ■ New projects secured in sub-Saharan Africa which offers medium to long term growth potential. 	<ul style="list-style-type: none"> ■ Strategy reprioritised and will focus on specific sectors for select clients in the rest of Africa.

Strategy continued



Realise growth and sustain profitability

An overview of strategic initiatives, progress and future focus areas follows:

Objectives	2016 progress	2017 focus area
<i>Enhance profitability and cash flow</i>	<ul style="list-style-type: none"> ■ Aveng Grinaker-LTA close to break-even ■ Major claims settled ■ Robust working capital management in South African operations ■ 50% of Aveng Grinaker-LTA projects executed at tendered margins ■ Focus on securing quality work at acceptable margin ■ McConnell Dowell's order book increased by 22% during the final six months with stronger embedded margins. 	<ul style="list-style-type: none"> ■ Realise Aveng Grinaker-LTA's planned return to profitability in 2017 ■ Maintain focus of South African operations on positive cash flow, cost control and project execution ■ Continue to focus on operational improvement to obtain higher order book margin ■ Prioritise acquisition of profitable work in Civil Engineering and Mechanical & Electrical business units ■ Continue to pursue new project development and investment opportunities through Aveng Capital Partners ■ Monitor markets continuously and react swiftly to ensure capacity is aligned with revenue ■ Improve McConnell Dowell's project selection and tender management ■ Improve McConnell Dowell and Aveng Grinaker-LTA project performance.
<i>Market expansion into Africa and Southeast Asia</i>	<ul style="list-style-type: none"> ■ McConnell Dowell secured new projects in Southeast Asia, including 128 solid products handling jetty in Malaysia and Tuas bridges in Singapore ■ Africa strategy reprioritised and will focus on specific sectors for select clients in the rest of Africa ■ New awards in southern Africa included the Hilton Hotel in Swaziland, a new Virgin Active gym in Windhoek, and an electrical and instrumentation contract at Debswana mine in Botswana ■ Aveng Manufacturing focused on expanding the supply of a range of its products and services to the power, water, mining and transport infrastructure sectors in Mozambique and Zambia. 	<ul style="list-style-type: none"> ■ Maintain strong performance in Southeast Asia ■ Continue to pursue opportunities in transport, energy and other social infrastructure in Southeast Asia as urbanisation and growing middle class fuel growth ■ Leverage strong reputation and core strengths in marine, mechanical and tunnelling and pipelines to secure work in petrochemical, energy, utilities and transport sectors ■ Pursue new building opportunities in industrial, manufacturing, health and educational sectors ■ Aveng Grinaker-LTA will continue to pursue opportunities in building, civil engineering and operations and maintenance in transport, mining and energy sectors for select clients in the rest of Africa ■ Aveng Mining will leverage its reputation in Africa to pursue opportunities as market improves.



McConnell Dowell's Gold Coast Rapid Transit project

Message from the Board

Chairman's statement

Rebuilding shareholder value

Mahomed Seedat – Chairman



Aveng has made significant advances in its operational, financial and safety performance during 2016 – and it is a tribute to the people of Aveng that they have been able to achieve improvement across key areas of the Group's performance in challenging market environments.

Overview


Conditions in Aveng's key market sectors in South Africa continued to deteriorate in 2016 due to the sustained impact of the global commodities downturn and socio-political factors unique to the domestic market. This contributed to lower levels of work across our construction, mining, rail, steel and manufacturing businesses, while increased competition for less work continued to compress profit margins. In Australia, the downturn in mining and resources markets impacted revenue in the first half of the year but investment in transport and other social infrastructure in Australia and Southeast Asia improved opportunities during the second half.

Despite the weakness in all markets in which Aveng operates, the Group was able to improve its financial performance.


The effective implementation of the *recover and stabilise* phase of the Group's strategy was most visibly demonstrated in the improvement in the performance of Aveng Grinaker-LTA, which came within reach of a return to profitability as financial and commercial discipline was restored throughout the operating group. All of the South African businesses have undergone varying degrees of restructuring to tailor them to a prolonged period of market

deterioration and ensure that they are optimally positioned for growth. McConnell Dowell's financial position reflects the adverse impact of the QCLNG and GCRT projects, which were completed in 2015 and are subject to commercial claims and its 2016 results reflect underperformance on some projects. However, measures applied by new management to restore operational and financial performance, together with improving market conditions, are starting to achieve the desired outcomes.

An unfortunate consequence of the cost-cutting and downsizing measures that were a necessary response to market contraction over the past three years was the loss of 9 046 people across Aveng as a result of retrenchment and natural attrition. It is never easy to retrench people and it is inevitably traumatic for those directly impacted and their families and colleagues. We endeavoured to implement this reduction in headcount in a controlled and responsible manner, and the fact that it has not been accompanied by labour disruption demonstrates the relationships established with organised labour. These have enabled a joint effort to manage this difficult transition without unduly deterring us from our efforts to build resilient and sustainable businesses in the longer term.

Detailed information on Aveng's operational performance and financial position is available in the executive review on pages 40 to 51 and the operational reviews on pages 52 to 74. 


Material matters

Matters that have the potential to materially impact the performance of Aveng and its ability to create value for stakeholders in the short term, medium term and long term are continuously identified, assessed, managed and mitigated. I have singled out for discussion some of the Group's material matters with a higher potential impact, but a more detailed analysis is provided in the material matters report on pages 18 to 26 and the executive review on pages 40 to 51. 

Safety

The safety and wellbeing of our people are critical to our ability to embed a culture of high performance and fulfil Aveng's strategic objectives. The Group experienced a significant improvement in safety performance in 2016, which we attribute to improved discipline and accountability in the operations. The all injury frequency rate which reflects safety incidents across the spectrum from first aid to loss of life, improved for the fourth consecutive year, declining by 22% to 2,7 in 2016 and we achieved our ultimate target of zero

fatalities. It is important to qualify, however, that while there were no fatalities in work environments under the direct supervision of Aveng, eight fatalities occurred in road and transport accidents beyond the Group's control on projects that we worked on. We have recently defined these as monitored incidents and they serve as a stark reminder of the importance of maintaining a very high level of focus – throughout the Group and particularly in areas identified as high risk – on our vision of **"Home Without Harm Everyone Everyday"**.

Additional information on safety performance is available in the sustainability report at www.aveng.co.za 

Liquidity


The Board conducted a strategic review of the disparity between the market valuation of Aveng's share price and the Group's intrinsic value, and to determine measures to strengthen shareholder value. The Board agreed that additional measures were required to strengthen the Group's financial position and address concerns about its liquidity. These are discussed below:

- ◆ Aveng's steel business operates in a market that has changed structurally, and even with additional capital expenditure, the business would no longer be able to fulfil the Group's required return on capital invested. Therefore, it was decided that the Group would offer Aveng Steel, or its separate operations, for sale. The quality of the business and the improvement in the steel market during the financial year ensured that this would be concluded at an acceptable value.
- ◆ The value of the Group's portfolio of infrastructure investment assets managed by Aveng Capital Partners (ACP) was not fully reflected in the Aveng share price. Therefore, consistent with the strategy to gain value throughout the developmental curve of the assets and then to realise them and reinvest the proceeds in other investments with growth potential, the

Board agreed to dispose of the majority of ACP's portfolio.

- ◆ As Aveng Grinaker-LTA shifts its sights from turnaround to growth over the next three to five years, the Board concluded that to remain relevant and competitive in its domestic market, it would be necessary for the operating group to accelerate its transformation. We are exploring various strategic alternatives.

These measures, combined with our ongoing efforts to resolve the outstanding QCLNG and GCRT claims in Australia and to manage cash effectively through operational excellence, remain a work in progress and are in various stages of execution.

Additional detail is provided in the executive review on pages 40 to 51. 

Stakeholder engagement

We have continued to engage with key stakeholders and have strengthened our relationships in a number of areas, including those with our employees and organised labour. We sought to address concerns about Aveng's financial position by engaging with key shareholder groups in South Africa and London, and continue to engage with government in partnership with SAFCEC, the civil engineering employer organisation, in an effort to restore the trust of government and broader society following

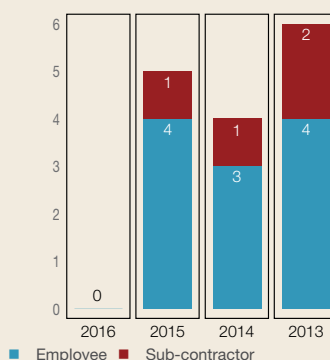
I am satisfied that the Board and the executive management teams have the necessary capacity and experience to continue executing the strategy effectively in order to rebuild shareholder value and create value for our stakeholders and the markets we serve.

the Competition Commission's investigation into anti-competitive practices in our industry.

Transformation

Our vision is to ensure that Aveng is a company without divisions and boundaries that make people feel structurally excluded. In South Africa, the Group supports the principles of broad-based black economic empowerment (B-BBEE) and measures its transformation against the Generic Codes of Good Practice and the Construction Sector Code and targets aligned to the Department of Trade and Industry's B-BBEE Codes of Practice. Aveng has a level 2 B-BBEE status with 91,49 points which is valid until

Lives lost under direct Aveng supervision



Monitored incidents



Message from the Board continued

Chairman's statement continued

October 2016. This is the highest score the Group has attained to date and it compares favourably with the scores of our peers in the sector. In particular, we achieved performance improvements in the areas of management control, employment equity, preferential procurement and skills development.

However, the revised codes require a significant shift in performance and culture to maintain the same rating in the next verification period. Aveng is at an advanced stage of implementing a three-year strategy to ensure compliance with the revised codes and the Group's primary focus is on increasing its B-BBEE performance by complying with the management control targets measured against the national economically active population. Achieving employment equity targets has been a challenge, particularly during a period of restructuring and we have focused strongly on recruiting, retaining and developing young black professionals into more senior managerial ranks. The Group's preferential procurement and enterprise development programmes represent an area of leading practice, as reflected by their scores of 100%. These have been strengthened further by a partnership Aveng has embarked on with the Department of Trade and Industry to open the first construction sector incubator in South Africa. By creating 40 construction sector business owners and more than 160 jobs over three years, the Aveng construction incubator programme will play an integral part in transforming the construction sector.

As a leader in infrastructure development in South Africa, Aveng is committed to socio-economic development in the country and particularly the communities in which it works. In 2016, the Aveng Community Investment Trust invested R12,4 million in

two best-practice mathematics and science education projects in Gauteng and Limpopo provinces.

Strategy

The *recover and stabilise* strategy implemented in 2014 was the first phase in a three-stage strategy to address key material matters. It was adopted by the operating groups and effectively executed in 2016, resulting in the large-scale realignment of fixed overhead cost structures to market demand, the resolution of a number of significant claims in Aveng Grinaker-LTA and Aveng Mining and an overall improvement in operational performance. The Group's adoption of the three lines of defence approach to risk management, with clearly defined roles and responsibilities to identify, evaluate and manage opportunities and threats, contributed to an improvement in project bidding and the commercial management of projects. Risk management was further strengthened by the alignment of the risk committee's agenda with material matters and the formation of a tender advisory committee which streamlines the tender review process.

The overall improvement in the performance of Aveng and achievement of the specific objectives of the *recover and stabilise* phase in difficult market conditions confirms not only that the strategy is effective but also that it is being effectively executed by a stable and committed leadership team.

The next phase of the strategy is *position for profitable growth* which focuses on capital optimisation and further strengthening of the Group's businesses. The Group defines its sectoral markets as infrastructure and transport development in the construction, mining, power, Oil & Gas

and water markets, with South Africa as the base for expansion into selected markets in the SADC and East African regions and Australia as the base for opportunities in Southeast Asia, New Zealand and the Middle East. The Group and its operations have adopted a client-centric approach to their initiation of, or response to, business opportunities, and this is increasingly evident in business development and project selection processes and activities across the Group.

Governance

Governance provides the framework and processes intended to achieve our strategic objectives but we equate it with much more than these mechanisms. Good governance encompasses every element of our business and seeks specific outcomes as we strive to achieve Aveng's strategic objectives effectively and ethically in the markets and communities in which we operate.

The Board unanimously embraces the principles of the King Code of Governance (King III) and benchmarks its compliance against this framework. Furthermore, the Board subscribes to full compliance with applicable laws and regulations in all jurisdictions in which it operates. We have commenced the process of determining the requirements of King IV, which is currently open for comments, with the assistance of external advisers.

Board of directors

The Board is regularly assessed to ensure that the qualifications, diversity, independence and experience of its members contribute to the creation of value in the short, medium and long term. While no material gaps were evident, the Board's refreshment and continuity programme

identified the requirement for a person with advanced experience in the fields of construction and engineering.

On 1 November 2015, Sean Flanagan was appointed as an independent non-executive director bringing 30 years of industry-specific experience derived from contract and claims negotiation, project engineering, project and construction management, setting company strategies, leading mergers and acquisitions and trouble-shooting in underperforming projects and businesses.

In the 2015 integrated report, I announced the appointment of Philip Hourquebie as a non-executive director with effect from 5 August 2015. Philip has extensive operational experience and was previously a member of the King III Committee on Boards and Directors.

Peter Ward retired on 30 June 2016 after nine years of service as a non-executive director. Peter was also a member of various board committees and chairman of the audit committee. On behalf of my colleagues, I would like to thank Peter for his commitment to Aveng and the wise counsel he provided to the Board.

Angus Band retired as a non-executive director with effect from 19 August 2016. My board colleagues and I thank Angus for his valuable contribution to Aveng and the guidance he has given to the Board during 10 years of service.

David Robinson retired as an executive director on 17 August 2015 and as a non-executive director on 31 October 2015. We thank David for his valuable contribution to the Group over the past 10 years.

Aveng has embarked on a partnership with the Department of Trade and Industry to open the first construction sector incubator in South Africa. By creating 40 construction sector business owners and more than 160 jobs over three years, the Aveng construction incubator programme will play an integral part in transforming the construction sector.

We wish Angus, Peter and David well in their retirement.

An internal assessment of the effectiveness of the Board was conducted by the company secretary in July 2015 by means of online questionnaires distributed to the board and board committee members. The assessment indicated that board members were satisfied that they are able to fulfil their mandate in an open and independent manner. Matters raised during the assessment are being addressed during interviews I am undertaking with each board member. These matters are not considered significant.

Acknowledgement

This has been a difficult year for everyone at Aveng as we have worked to achieve our strategic objectives in deteriorating market conditions beyond our control. I am grateful to Angus Band and all of my colleagues on the Board for their invaluable support and insight during my first year as chairman. The role of our chief executive officer, Kobus Verster in building resilient businesses in difficult markets, cannot be underestimated. On behalf of the Board, I thank Kobus and his executive leadership team for their determined execution of the *recover and stabilise* strategy. I also wish to express the Board's gratitude to our employees for remaining steadfast and contributing to the

Group's improved performance. Finally, I thank our clients, suppliers and business partners who enable us to keep delivering the projects that sustain the markets we serve.

Outlook

The Board expects the macro-economic environment in many of its markets to remain weak in 2017.

Conditions in the South African economy, in particular, show limited evidence of large infrastructure project opportunity or a short term turnaround in the mining sector, although we expect smaller opportunities in the building, mining and municipal infrastructure and water sectors in South Africa and other sub-Saharan markets.

In contrast, Aveng is tendering for an increasing number of opportunities in its markets in Australia, New Zealand and Southeast Asia. The Group has adopted a more client-centric approach to increase the ratio of projects it wins.

I am satisfied that the Board and the executive management teams have the necessary capacity and experience to continue executing the strategy effectively in order to rebuild shareholder value and create value for our stakeholders and the markets we serve.

Performance

Executive review

Creating a resilient foundation



Kobus Verster
Group CEO



Adrian Macartney
Group CFO



Juba Mashaba
Group executive director

We have achieved a substantial improvement in the financial performance of Aveng despite sustained weakness in all of our markets. This is a consequence of management interventions to restore sound operational performance and strengthen the Group's financial position.

Overview

Our focus in 2016 has been to protect and enhance shareholder value by ensuring that our business operations are able to withstand the sustained economic downturn while being optimally positioned for profitable growth. The *recover and stabilise* phase of our strategy has been effectively executed, and, as a consequence, the majority of our South African business operations are resilient and sufficiently optimised to capitalise on current and future growth opportunities. This phase of our strategy has taken longer than anticipated to implement and has required a 22%* reduction in the Group's cost base over the past three years as we have responded to deteriorating market conditions that have reduced revenue by 35% to R33,8 billion over the same period.

We have acted decisively to remove undue risk from our operations by completing non-profitable projects, aggressively pursuing and resolving major commercial claims, while strengthening operational leadership and performance to ensure that new projects fulfil our risk and profit margin requirements.

These measures have resulted in a significant improvement in the financial performance of Aveng Grinaker-LTA which is close to achieving break-even, and contributed to a turnaround in the Group's net operating earnings to a R146 million profit (2015: R288 million loss) during the year under review.

Our mining operation has been optimised and positioned for future growth, while the restructuring of the manufacturing operation was completed during the first quarter of the 2017 financial year.

With the exception of Aveng Grinaker-LTA and Aveng Steel, all of the Group's other operations were profitable during the year, albeit at lower margins.

Under new management, the restructuring of our Australian operation, McConnell Dowell, has been accelerated to create a leaner, simplified organisational structure with lower costs, stronger accountability

and clearly defined business units that are able to deliver profitable work in their regions.

The improvement in the Group's gross margin from 5,4% in 2015 to 7,4% reflects a significant increase in the number of projects that are achieving their tendered margins and bears testimony to the advances we have made in restoring the operational performance of Aveng Grinaker-LTA in challenging conditions. The margin improvement was partially offset by discounts awarded on various Aveng Mining contracts as clients sought to reduce operating costs in mines that have become increasingly marginal in a falling commodity cycle. In some instances, this led to the unexpected cancellation of contracts as clients reduce production or place operations on care and maintenance.

Strengthening the liquidity of Aveng has been one of the Group's most pressing material matters during the *recover and stabilise* phase and a number of measures have contributed to positive cash flow in the South African operations and provision of partial funding for McConnell Dowell.

These include:

- ◆ Disposal of non-core properties to the Collins Group, retention of a 30% share and joint control of these assets.

* R2,8 billion less restructuring costs of R189 million and legal fees of R61 million.

Liquidity	
Net cash as at 30 June 2015	393
Cash from operations	949
Proceeds from disposal of properties	1 127
QCLNG advance	(1 072)
Working capital change	(1 151)
Net finance charges and taxation	(560)
Net capital expenditure	(349)
Investments movement	(114)
Net movement in borrowings and exchange impact on cash	243
Net debt as at 30 June 2016	(534)

This transaction resulted in a profit of R577 million and cash inflow of R1,1 billion.

- ◆ Strong cash generation by Aveng Grinaker-LTA, supported by commercial and claims settlements, partially offset by the third and last payment of R102 million for the Competition Commission settlement.

However, these inflows were offset by:

- ◆ Repayment of the QCLNG advance of R1,1 billion.
- ◆ Significant cash outflows associated with the utilisation of advance payments, the completion of large projects such as Perth Airport and remedial work on the GCRT contract at McConnell Dowell.
- ◆ Finance charges and a taxation payment amounting to R560 million.

Cash and bank balances decreased to R2,4 billion (June 2015: R2,9 billion), resulting in a net debt position of R534 million (2015: R393 million net cash). Foreign currency translations had a R315 million favourable impact at year-end.

Following a strategic review by the Board in 2016, Aveng announced that it was

implementing a series of additional strategic transactions to strengthen the Group's financial position and address concerns about its liquidity. Subsequent to the financial year-end, Aveng implemented, or is in the process of implementing, the following transactions:

Aveng Capital Partners' infrastructure investments

The Group concluded a binding agreement with Royal Bafokeng Holdings, for the sale of its interests in four major infrastructure investments for a cash consideration of R860 million. Conditions precedent to the transaction include the waiver of the pre-emptive rights by current shareholders, and compliance, regulatory, lender and shareholder approvals.

Aveng Steeledale

The Group concluded a binding agreement with Kutana Steel whereby Kutana Steel will acquire a 70% interest in Aveng Steeledale for approximately R252 million. Aveng will have the option to divest from the remaining 30% of its shareholding in Steeledale at any time after three years for the fair value of its equity interest and loans at that time. Kutana Steel is a black women-owned investment group, with Thoko Mokgosi-

Mwantembe as CEO. She is also an independent non-executive director of Aveng and other major South African listed companies. The sale to an affiliate of a director is a related party transaction and hence shareholder approval is required to complete this transaction.

Aveng Grinaker-LTA and Aveng Trident Steel

In line with the strategy to dispose of Aveng Trident Steel and pursue transformational options for Aveng Grinaker-LTA, the Group is still in discussions with parties on both transactions, and has not yet reached a stage where an announcement can be made on either the value or the prospective buyers. The market will be informed once there are material developments to report.

Financial performance

The 23% decline in revenue to R33,8 billion (2014: R43,9 billion) reflects lower revenue from all operating segments in line with their markets, and pockets of growth in building activities, New Zealand and lower margin manufacturing products. The full impact of contract cancellations on the revenue of Aveng Mining will result in a further reduction in revenue in 2017.

Net operating earnings increased to a R146 million profit (2015: R288 million loss) as a result of the strong performance by Aveng Grinaker-LTA, an improvement in the financial performance of Aveng Steel during the second half of the year, realisation of cost savings previously implemented throughout the Group and fair value gains on the infrastructure investments. These positive factors were partially offset by restructuring costs incurred to resize the business, underperformance on some McConnell Dowell contracts, additional expenses incurred by the eMalahleni water project, contract cancellation or volume reductions in Aveng Mining and generally difficult trading conditions.

Performance

Executive review continued

Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 46% to R969 million (2015: R662 million), while the loss in earnings declined to a loss of R101 million (2015: R460 million). This included a R577 million gain on the sale and leaseback of the majority of the Group's property portfolio which was partially offset by a charge of R333 million for the impairment of Aveng Steel assets and abandoned Aveng Mining contract assets. Net finance charges increased by 11% to R341 million (2015: R306 million) due to lower convertible bond costs in 2015 and the taxation expense amounted to R129 million (2015: R80 million), including withholding tax of R103 million on profit expatriated from Guinea following the completion of a project.

The headline loss improved to a loss of R299 million (2015: R578 million loss), excluding impairment charges and gains on the property transaction. A basic loss per share of 25,4 cents (2015: 114,8 cents) improved by 78% and a headline loss per share of 75,2 cents was 48% lower than the 144,3 cents loss in 2015.

Aveng reduced its capital expenditure to R510 million (2015: R876 million), applying R323 million (2015: R649 million) to replacement and R187 million (2015: R175 million) to expansion of property, plant and equipment. Net capital expenditure amounted to R364 million, the bulk of which was spent on McConnell Dowell (R150 million), Aveng Manufacturing (R126 million) and Aveng Mining, mostly Shafts & Underground (R151 million). The Group has reduced its contract-specific capital expenditure over the last few years as a result of lower project activity. The cancellation or reduction of Aveng Mining contracts has increased the percentage of idle fleet. Although this is not optimal, the fleet is largely unencumbered and allows for more flexibility in the supply of replacement

machinery to existing and new projects. Capital expenditure at Aveng Manufacturing has increased the capacity and efficiency optimisation of manufacturing factories.

Uncertified revenue amounted to R6,5 billion, with R4,2 billion of the total amount related to the commercial claims against the QCLNG and GCRT projects which were completed by McConnell Dowell in 2015.

Arbitrators for the QCLNG claim have advised that, given the complexity of the claim, the final outcome is likely to be delayed until the first half of the 2017 calendar year. The claims associated with the GCRT project were lodged during 2016 and remain on track for conclusion in 2018. While claims settlements in the future will be cash accretive, they remain a material risk to earnings.

The QCLNG and GCRT claims have increased by R1 billion primarily due to the impact of the foreign exchange translation, costs associated with the defect close-out of GCRT and costs relating to settling the claims.

Operational performance

Despite sustained economic weakness, the South African building industry demonstrated resilience in the commercial, residential, healthcare and municipal building markets. However, opportunities in the civil engineering and mechanical and electrical markets were constrained by delays in the implementation of large infrastructure investment programmes by the public sector and the resources industry.

Construction and Engineering: South Africa and rest of Africa reported a 12% decrease in revenue to R7,3 billion (2015: R8,4 billion), primarily due to lower work volumes in the Civil Engineering and Mechanical & Electrical businesses. The net operating losses of Aveng Grinaker-LTA decreased by 88% to R69 million (2015:

R575 million loss). This was achieved after substantial completion of loss-making or non-contributing projects, an increase in the ratio of contracts operating at tendered margins, a strong performance by the building business, resolution of some major commercial claims and a further reduction in fixed operating costs. Excluding once-off restructuring and holding costs, Aveng Grinaker-LTA achieved a break-even in 2016.

The revenue of Aveng Water (and the remaining work of Aveng Engineering) decreased by 56% to R309 million (2015: R705 million), largely due to completion of construction works on the water and power plants and a move to commissioning and operations. After encountering technical integration issues and unfavourable weather conditions, the Gouda Wind Farm was commissioned and handed over. During the early stages of commissioning, issues at the eMalaheni Phase 2B project were identified in work carried out by external subcontractors who have since been declared insolvent. As a result, remedial work was required and a loss was recorded on this contract.

Additional costs on these two contracts impacted the operating earnings negatively, resulting in a net operating loss of R273 million (2015: R290 million loss).

The focus of this business is now on leveraging the significant advantage held within Aveng Water in acid mine drainage, water treatment processes and operational maintenance. The South African mining and municipal sectors offer attractive opportunities for growth.

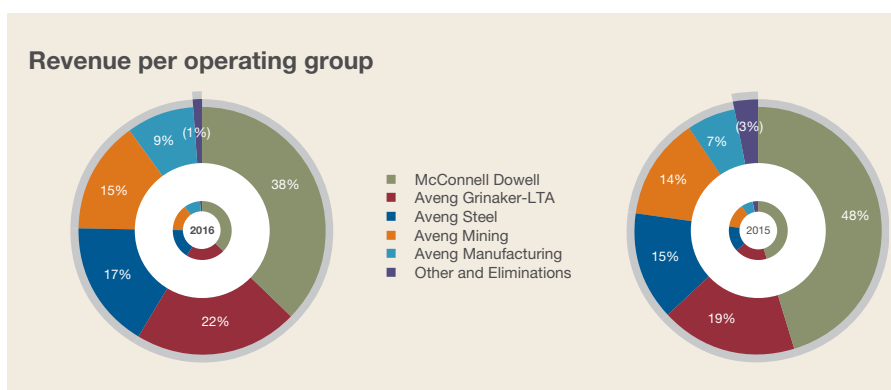
Aveng Capital Partners (ACP), which manages the Group's concession investments, reported a 7% increase in net operating earnings to R194 million (2015: R183 million) as a result of a marginal increase in revaluation gains. Subsequent to

year-end, four of the investments were sold at carrying value subject to conditions precedent.

ACP continues to manage an investment in the South African National Roads Agency rehabilitation project on the N1 highway between Polokwane and Bela Bela and jointly manages Aveng's 30% interest in the Dimopoint property portfolio. It will continue to pursue new concession project development opportunities.

Low levels of infrastructure investment in the mining and Oil & Gas sectors in Australia continued to impact **Construction and Engineering: Australasia and Asia** during 2016. McConnell Dowell's revenue decreased by 41% to AUD1,3 billion (2015: AUD2,2 billion) as multi-year pipeline and LNG infrastructure contracts were completed and the Electrix business was sold in the prior financial year. These losses of revenue were further compounded by limited opportunity to secure replacement work in the mining and Oil & Gas sectors as a result of sustained weakness in commodity prices. However, in contrast to the resources markets, investment in transportation and other social infrastructure in Australia, Asia and New Zealand is increasing and this resulted in the award of a number of new contracts during the second half of the year.

Strong operational performances were achieved by some contracts, notably the Webb Dock Grade Separation project in Victoria and the Waterview tunnel project in New Zealand, while most major regions in the Southeast Asia operations reported solid performances despite tough market conditions. However, these were offset by lower levels of work awarded, costs associated with tender expenses for significant contracts that were not secured



in competitive markets, losses incurred on the Kiribati road rehabilitation project in the Pacific, cost overruns on some projects in Australia and underperforming legacy projects in the Middle East. As a result, net operating earnings decreased by 84% to AUD1,4 million (AUD9,0 million).

Cash flow remained negative due to additional utilisation of advance payments, coupled with the slow uptake of new work for much of the year. The resolution of commercial and insurance claims is expected to have a positive impact on cash flow and McConnell Dowell's cash position is expected to stabilise after the first quarter of 2017.

Challenging conditions in the mining industry continued to impact **Aveng Mining** as clients either delayed projects or implemented major cutbacks in the scope of work. Most clients negotiated higher levels of efficiency and discounts with contractors to reduce costs on ongoing projects. Aveng Mining recorded a 17% reduction in revenue to R5 billion, while net operating earnings decreased by 33% to R276 million (2015: R413 million). The combined operating margin declined to 6% (2015: 7%), largely as a result of discounts awarded to clients on various contracts and

the unexpected cancellation of some contracts.

Aveng Mining is working closely with clients to assist in reducing overall costs and regain some of the margins lost due to discounts. This is being achieved through various productivity improvement and efficiency initiatives.

Despite these pressures, most contracts are performing well operationally. Aveng Shafts & Underground returned to profitability during the financial year, and Aveng Moolmans maintained its track record of sound financial performance relative to its market peers.

While securing new work in the current environment remained challenging, contracts on a number of existing projects were extended and some new contracts were awarded in South Africa and the rest of Africa. Sound operational performance and the resolution of outstanding claims contributed to a strong cash position.

Aveng Manufacturing continued to be impacted by ongoing weakness in its markets which resulted in large-scale postponement of work, particularly in mining, Oil & Gas and rail-related infrastructure projects. This contributed to a

Performance

Executive review continued

9% reduction in revenue to R3 billion (2015: R3,3 billion). Adverse market conditions delayed the planned increase in sales of higher margin products, which impacted profit margins and contributed to a 58% decline in net operating earnings to R96 million (2015: R226 million).


The diversification of Aveng Manufacturing into other geographic and sectoral markets mitigated the impact of weakness in its core markets, while ongoing efficiency improvements enabled the operating group to remain profitable.

Weak demand for infrastructure development, low international steel prices and increased competition from cheap imports in the domestic market during the first half of the financial year took a heavy toll on **Aveng Steel** which reported a 13% decrease in revenue to R5,8 billion (2015: R6,7 billion). This was compounded by significant ongoing costs to realign the fixed cost base to market conditions which impacted profit margins and contributed to a loss of R166 million (2015: R172 million).

Market conditions improved in the second half of the year as international steel prices rose and customs duties were applied progressively to steel imports. Sales volumes increased marginally as a result of restocking throughout the steel value chain, but project opportunity remained subdued and the anticipated award of renewable energy projects was postponed to 2017. Better market conditions and optimal stockholding contributed to an improvement in profit margins in the final quarter of the year and will continue to have a positive effect in the new financial year.

The combined revenue of the Manufacturing and Processing operating segment decreased by 11% to R8,8 billion (2015: R9,9 billion), while a net operating loss of R70 million (2015: R54 million profit) was

reported. Despite the overall loss, the operating segment contributed strongly to positive cash flows by optimising inventory and improving cash collections to reduce working capital.

Additional information on operational performance is available in the operational reviews on pages 52 to 74. 

Strategy execution

Aveng made further progress in the execution of its strategy to ensure the protection of shareholder value in the immediate term and position the Group for profitable growth in the longer term. The initial *recover and stabilise* phase of the strategy is largely complete with the following outcomes:

Recover and stabilise

Measures to improve risk and commercial management, cost control and operational execution stabilised **Aveng Grinaker-LTA** and enabled it to recover financially in a challenging operating environment. The completion of unprofitable contracts, and improved tendering and project selection resulted in an increase in the operating group's gross profit margin to 5% in 2016, and 50% of projects are being executed at tendered margins. While not at acceptable levels, the margin has improved significantly. The resolution of significant claims and receivables, most notably in the power sector, contributed to an improvement in cash flow, and the completion of the overhead cost reduction programme lowered the cost base, but incurred a once-off restructuring cost during the year.

Aveng Water is now under the management of Aveng Grinaker-LTA and the remaining components of Aveng Engineering were closed. All construction projects undertaken by Aveng Engineering, with the exception of the eMalahleni purification project, have been completed. The eMalahleni project has received attention and the outcome is now more certain. The estimated loss for the

contract has been accounted for in 2016, while the associated cash flows will have an impact in 2017 as remedial actions and commissioning are completed.

As a result of these interventions, Aveng Grinaker-LTA is now a leaner, more disciplined and resilient business, led by a stable management team and supported by a stronger skills base.

Under new leadership, **McConnell Dowell** was restructured into four geographic business units – Australia, New Zealand and the Pacific, Southeast Asia and Built Environs – to reduce complexity and improve efficiency. This positioned the operating group to manage project delivery more effectively and reduce its fixed cost base in alignment with lower revenue levels. Under the new organisational structure, lines of accountability and project performance measurement have improved significantly. Enhanced client relationships and more selective tendering in order to win quality work has been a focus and the business benefited from several large project awards in the second half of the financial year.

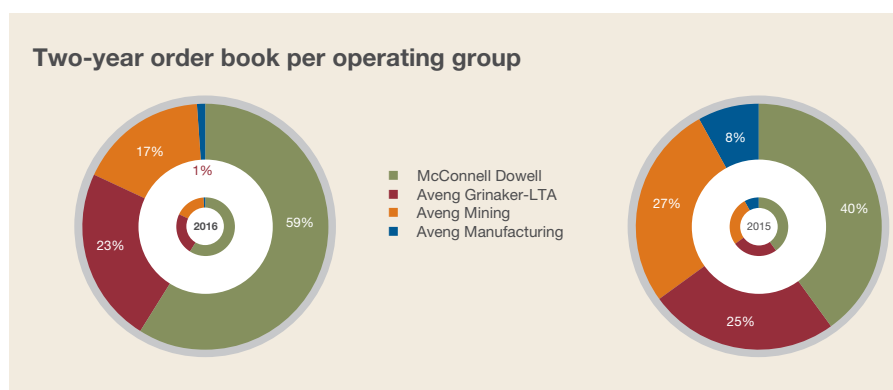
While McConnell Dowell made good progress in finalising various large projects and underperforming contracts, its financial performance remains disappointing. Operating free cash flow was primarily impacted by cash consumptive projects, which received advance payment in the prior year.

Aveng Mining responded decisively to the challenges in its operating environment, reducing its cost base by merging Aveng Moolmans and Aveng Shafts & Underground under one management team in shared premises with shared services, negotiating discounts to reduce project costs and maintain client relationships, and intensifying efficiency improvement processes to mitigate the consequent erosion of profit margins.

A strong focus on applying the operational and commercial disciplines of Aveng Moolmans to Aveng Shafts & Underground resulted in the return of the latter business unit to profitability, while the resolution of outstanding claims, including those associated with the Chuquicamata contract in Chile, contributed to a healthier balance sheet and a strong cash position. The Chuquicamata project was closed out earlier and more favourably than expected. Despite rigorous efforts to improve productivity and labour relationships at Wesizwe's Bakubung Platinum Mine, the financial performance of this contract remained unsatisfactory. Extensive commercial discussions continue with the client, simultaneously with the pursuit of contractual claims.

Aveng Manufacturing continued to implement optimisation initiatives in all of its production processes to improve efficiencies and quality, and entrench innovative new products in their markets. Following the realisation of cost savings of R53 million in 2015, the operating group reported further savings of R104 million in 2016. This was achieved, in part, with natural attrition and freezing of new appointments to limit retrenchment, and further reductions in cost of sales and operating expenses, including relocation of the head office to Jet Park and negotiations with suppliers to reduce costs of input materials. The Aveng Infraset factory in De Aar was mothballed and the Brakpan factory downsized.

Aveng Steel completed a significant restructuring in 2015 to align its cost base with current market conditions. During the second half of the 2016 financial year, the operating group closed the Vanderbijlpark facility of Aveng Steel Fabrication and transferred capability and resources to its Roodekop facility. The business contributed positively to the Group's liquidity through improved working capital management, and future savings will be realised. No significant



capital expenditure was incurred during the year.

Position for profitable growth

Progress has been made on the next phase of the strategy in Aveng's key markets in South Africa and Australia where the Group is optimising its business portfolio with targeted allocation of capital.

The strategic focus of the Group's operations has shifted from recovery and stabilisation to optimisation and growth as they identify and position for future growth opportunities. These are discussed below:

In the near term, **McConnell Dowell** will focus on its core capabilities in geographies, disciplines and sectors where there is a proven history of success. A selective approach to new work has been adopted to maximise value from sales and tendering expenditure and to position McConnell Dowell where it can add value to its clients and provide reliable financial outcomes.

McConnell Dowell's Australian business unit continues to focus on road and rail infrastructure across all states, as well as opportunities in the resources, Oil & Gas, defence and water sectors. The business unit is well positioned for several significant road, rail, and pipeline projects across the country.

In New Zealand and the Pacific Islands, the focus is on road and rail transport, tunnelling, water and waste water, and energy projects. The continuing rebuild of

Christchurch will provide ongoing opportunities, as will the business unit's position in the Pacific where it continues to focus on marine, port and airport opportunities.

In Southeast Asia, McConnell Dowell is leveraging its strong reputation and core strengths in marine, mechanical, tunnelling and pipelines to secure work in the petrochemical, energy, utilities and transportation sectors.

Aveng Grinaker-LTA is focusing on clients, cash preservation and profitability, performance management, transformation, innovation and brand-building as it prepares for medium term growth from 2017 to 2019.

Heightened engagement with key clients in targeted markets is supported by a client solutions delivery model based on value and service. This approach has been well executed in the Building and Coastal business unit, where quality building projects secured at viable margins and completed on time and within budget, are serving as showcases to attract more quality work. For example, the successful completion of the Mall of the South and strong operational performance on the Sasol Head Office, have enabled Aveng Grinaker-LTA to enter into negotiated contracts with property developers for large new building projects in a competitive market, particularly in Gauteng where the Aveng brand dominates the Sandton skyline.

Performance

Executive review continued

Furthermore, an innovative approach to partnerships with local authorities in the major provinces which do not present credit risk has facilitated the business unit's expansion into the social infrastructure markets in the Western Cape and Gauteng.

The operating group maintained its level 2 B-BBEE rating based on 2015 performance and is preparing to implement the revised codes of good practice during the new financial year, with a strong focus on improved performance in employment equity and enterprise development.

Aveng Mining has been optimised and positioned for future growth. New work is subjected to a more rigorous selection process that complies with the Aveng Group's risk management and profit margin expectations. This process, combined with improved operational performance is already evident in the results that are being achieved on newly awarded contracts.

The completion of the restructuring phase has been followed by a programme to embed strong cultural norms and align the values of the merged operation with the Aveng culture. This programme is being implemented throughout the operating group and is complemented by an initiative to develop high performance operational teams.

Aveng Mining has a portfolio that spans five commodities mined for six customers in four countries, with 24% of the work sourced outside South Africa compared to 30% in the comparative period in 2015. The operating group is pursuing other opportunities to rebalance the geographic and commodity weighting of its order book. In addition to repeat work secured with existing clients in Chile and markets in the rest of Africa, Aveng Mining has achieved a breakthrough in Burkino Faso and Guinea with a new client.

In **Aveng Manufacturing**, Aveng Dynamic Fluid Control (DFC) finalised phase one of the reorganisation of the Benoni factory which positions it for further growth. DFC achieved solid growth in its international operations, particularly in the US, while a newly established distributor in Australia became profitable in 2016 and the Finland operation completed the first phase of a contract to supply valves to a Russian iron ore mine. DFC's sales of its locally produced valves to international markets currently account for 60% of its total valve sales and are expected to continue growing.

Aveng Automation & Control Solutions (ACS) has achieved growth in the power, water and mining sectors in South Africa, Mozambique and Zambia and is expanding its range of valves to the Oil & Gas and processing industries. Aveng Duraset has developed a number of innovative new or redesigned valve products that will improve safety and efficiency in mining.

Aveng Manufacturing has entered into a number of partnerships to facilitate growth in the sale of water valves and pumps in South Africa and the rest of Africa. The newly acquired high pressure knife gate valve manufacturer, Atval, offers strong future prospects. DFC's decision to shift its procurement of castings from international to local empowered suppliers is cost effective in a weak Rand environment and offers shorter lead times than imported products.

Aveng Duraset has finalised partnership arrangements with the Bapo Mogale community around the platinum mines in Rustenburg to supply the mines from its newly established manufacturing facility. Another supply partnership has been established with local empowered company Reunko for the supply of roof bolts to the coal mining industry.

Aveng Infraset continues to supply pipes, culverts and concrete products to Zambia, Mozambique and South Africa from its manufacturing capacity in these markets. In South Africa, Aveng Infraset is building a roof tiling factory in KwaZulu-Natal and developing new higher margin construction products, including aesthetic paving and roof ridging products. Aveng Rail continues to secure work in Mozambique and has intensified its efforts to win international rail projects in partnership with McConnell Dowell in the rest of Africa, Australia and the Middle East.

Aveng Steel has been stabilised and the operating group is focused on future growth, including opportunities in the power sector when renewable energy projects are awarded in 2017. Local vehicle manufacturing is currently under pressure but remains a growth prospect in the medium to longer term.

Human capital

People are Aveng's most critical asset as they determine the successful delivery of projects and products. The recovery and stabilisation of Aveng has been driven by stable management teams which are supported by strategically aligned performance management and the Group's core values of honesty, safety and accountability which guide our conduct at work.

Performance management remained a key focus area in 2016, with established procedures supported by training and development in critical skills. The impact of performance management was evident in improved operational performance, where project management and staff have a clearer understanding of their roles, what is expected of them and what they are accountable for. This has had an empowering and motivational effect on people and has enabled a much tougher stance on underdelivery.

There is a strong focus on recruiting the right people, retaining them and ensuring that they are adequately supported. One of the clearest signs of Aveng Grinaker-LTA's turnaround is its conversion from a business that was experiencing a severe loss of talent and institutional memory to one with a leadership team that has been stable for two years and is attracting new talent.

A number of managerial appointments were made to strengthen leadership capacity in certain key areas of Aveng, including new managing directors of McConnell Dowell and Aveng Rail, a general manager of Aveng Water and a group strategy executive at the corporate office. The Group also strengthened financial, human resources, commercial, new business and strategy capacity across the operations.

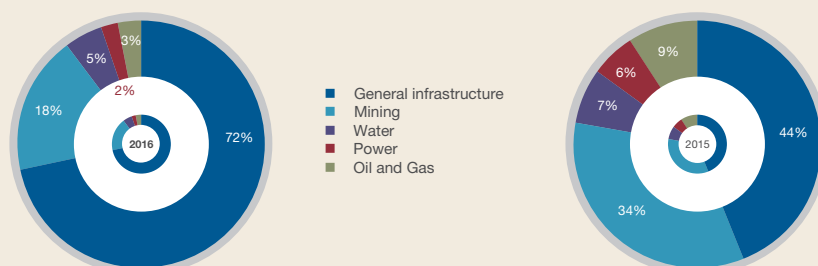
A succession plan was developed for the top senior managers, all senior team managers were assessed for competency, with specific interventions developed to address shortcomings, and remuneration strategies were implemented to retain high performers. An Aveng culture survey was undertaken in the South African operations.

Continued development and upskilling of employees across the Group, particularly in key skill categories supports the development and maintenance of a high performance organisation. During 2016, specific focus was placed on leadership development interventions for middle managers, first line supervisory development for junior managers, and execution development interventions for project managers.

Safety

The adoption by employees of safety as a personal value and visible demonstration by leaders and managers of their commitment to safety has contributed to a steady improvement in Aveng's safety performance.

Two-year order book by sector



A number of achievements in the Group's underlying safety performance, including improvement in the all injury frequency rate (AIFR) and the lost-time injury frequency rate (LTIFR), and an increase in the reporting of high risk, near-miss incidents, demonstrate the progress we have made in creating safer work environments.

The Aveng Board and management are concerned about current levels of road traffic safety and believe that extreme vigilance is required across our South African operations, given that we work on various public road projects. For this reason, the Group has extended its reporting to include "monitored incidents" to ensure that the fatal risks associated with circumstances beyond the control of Aveng, such as accidents on public roads, are recognised and examined. Efforts to address these risks include increasing controls on road closures and strengthening employee vigilance during work activities inside a road closure or non-work activities near a road closure.

Regrettably, eight lives were lost in five monitored incidents this year. The Board and management extend sincere condolences to the families and friends who suffered these losses. We will continue with our efforts to avoid such tragedies in future.

Order book

Aveng entered the new financial year with a two-year order book of R28,1 billion at 30 June 2016 (2015: R28,9 billion). This reflects a combination of a 22% increase in McConnell Dowell's order book due to an improvement in the success rate in the second half of the year and declining levels of work for Aveng Mining and Aveng Grinaker-LTA.

The geographic split of the order book at 30 June 2016 was 59% Australasia and Asia (2015: 40%), 37% South Africa (2015: 56%) and 4% in the rest of Africa (2015: 4%).

Outlook

The economic outlook in South Africa is expected to remain weak in the short term, with increasing medium term opportunities in Australia.

Aveng is a more focused business and well positioned for improved profitability.

We will continue to execute our strategy, including the conclusion of the ACP and Steeledale disposals, the pursuit of the outstanding QCLNG and GCRT claims settlements in 2017 and 2018, respectively, and an improvement in the financial position and performance of McConnell Dowell.

Performance

Executive review

Financial review and key ratios

	2016	2015	2014	2013	2012
	Rm	Rm	Rm	Rm	Rm
Consolidated statement of financial position					
Investment property	–	–	86	71	–
Property, plant and equipment	4 843	5 626	6 346	6 789	6 666
Goodwill and intangible assets	667	681	984	1 609	1 549
Equity-accounted investments	100	151	306	144	105
Infrastructure investments	177	778	–	–	–
Financial investments	–	–	190	70	146
Deferred taxation	1 858	1 580	1 403	1 347	998
Inventories	2 211	2 529	2 793	2 780	2 467
Receivables**	11 542	12 759	14 137	12 030	9 628
Cash and bank balances	2 450	2 856	4 136	4 120	4 852
Assets held-for-sale	1 484	559	607	–	–
Total assets	25 332	27 519	30 988	28 960	26 411
Total equity	13 556	12 998	13 396	13 307	12 911
Deferred taxation	266	221	257	319	299
Payables***	8 279	11 735	14 271	12 920	11 623
Payables other than contract-related	–	102	197	283	307
Borrowings and other liabilities	2 984	2 463	2 867	1 531	928
Bank overdrafts	–	–	–	600	343
Liabilities held for sale	247	–	–	–	–
Total liabilities	11 776	14 521	17 592	15 653	13 500
Non-controlling interests	37	23	11	12	10
Total equity and liabilities	25 332	27 519	30 988	28 960	26 411

** Including trade and other receivables, amounts due from contract customers and derivative instruments.

*** Including trade and other payables, amounts due to contract customers, derivative instruments, taxation payables and employee-related payable.

	2016	2015	%	2016	2015
	Rm	Rm	change	Days	Days
Working capital					
Inventory	2 211	2 529	(13)	26	22
Trade and other receivables	2 058	2 424	(16)	22	20
Amounts due from contract customers	9 464	10 294	(8)		
Current trade and other payables	(5 886)	(7 961)	26	68	70
Amounts due to contract customers	(1 322)	(2 562)	48		
Net working capital	6 525	4 724	38		
Forex impact	(146)	–			
Steeledale – held for sale	–	(120)			
QCLNG and GCRT claims	(4 246)	(3 255)	(30)		
QCLNG advance	–	1 055			
Normalised net working capital	2 133	2 404	(11)		

	2016	2015	%
	Rm	Rm	change
Uncertified revenue and claims			
Uncertified claims and variations	6 584	5 157	28
Contract contingencies	(390)	(253)	(54)
Contract and retention receivables	3 270	5 390	(39)
Amounts due from customers	9 464	10 294	(8)
Progress billings received	(1 014)	(1 921)	47
Amounts received in advance	(308)	(641)	52
Amounts due to customers	(1 322)	(2 562)	48
Net amounts due from contract customers	8 142	7 732	5
Foreign exchange impact	910	–	

	2016	2015	2014	2013	2012
	Rm	Rm	Rm	Rm	Rm
Consolidated statement of comprehensive income					
Revenue	33 755	43 930	52 959	51 704	40 886
Gross earnings	2 495	2 364	3 635	3 471	3 490
Other earnings	591	471	302	471	68
Operating expenses	(2 808)	(3 063)	(3 171)	(3 274)	(2 986)
Share of (loss) / earnings from equity-accounted investments	(132)	(60)	33	(12)	41
Net operating earnings / (loss)	146	(288)	799	656	613
Impairment of non-financial assets	(333)	(621)	(831)	–	–
Profit on sale of subsidiary	–	777	–	–	–
Profit on sale of property, plant and equipment	592	–	–	–	–
Operating earnings / (loss) before financing transactions	405	(132)	(32)	656	613
Finance earnings	211	177	136	132	189
Convertible bond	(225)	(167)	–	–	–
Net of other finance expenses	(327)	(316)	(319)	(162)	(76)
Earnings / (loss) before taxation	64	(438)	(215)	626	726
Taxation	(129)	(80)	(161)	(167)	(203)
(Loss) / earnings for the period	(65)	(518)	(376)	459	523
Other comprehensive earnings / (loss) for the period:					
Exchange differences on translation of foreign operations	786	(372)	402	196	485
Movement in insurance and other reserves	–	28	65	(2)	(12)
Total comprehensive earnings / (loss) for the period	721	(862)	91	653	996
Earnings / (loss) for the year attributable to:					
Equity-holders of Aveng Limited	(101)	(460)	(381)	466	521
Non-controlling interests	36	(58)	5	(7)	2
	(65)	(518)	(376)	459	523
Total comprehensive (loss) / earnings attributable to:					
Equity-holders of Aveng Limited	676	(804)	86	659	993
Non-controlling interests	45	(58)	5	(6)	3
	721	(862)	91	653	996
Determination of headline (loss) / earnings					
(Loss) / earnings for the year attributable to equity holders of Aveng	(101)	(460)	(381)	466	521
Headline earnings adjustment	(198)	(118)	802	–	(26)
Headline (loss) / earnings	(299)	(578)	421	466	495

	2016	2015	%
	Rm	Rm	change
Net operating earnings			
Construction & Engineering: South Africa and rest of Africa	(187)	(697)	73
Aveng Grinaker-LTA	(69)	(575)	88
Other	(118)	(122)	(3)
Construction & Engineering: Australasia and Asia	14	112	(88)
Aveng Mining	276	413	(33)
Aveng Manufacturing	96	228	(58)
Aveng Steel	(166)	(174)	3
Other	113	(170)	>100
Total	146	(288)	>100

Performance

Executive review

Financial review and key ratios continued

	2016	2015	2014	2013	2012
	Rm	Rm	Rm	Rm	Rm
Consolidated statement of cash flows					
Cash from operating activities	(1 834)	(1 535)	(310)	(285)	971
Cash from investing activities	709	508	(1 088)	(1 244)	(1 871)
Operating free cash flow	(1 125)	(1 027)	(1 398)	(1 529)	(900)
Cash from financing activities	384	(57)	1 323	314	(154)
Net decrease in cash and bank balances before foreign exchange movements on cash	(741)	(1 084)	(75)	(1 215)	(1 054)
Returns and productivity					
Net (debt) / cash position	(534)	393	1 269	2 366	3 932
CPI (%)	4,7	4,7	6,6	5,5	5,9
Current ratio (times)	1,8	1,5	1,3	1,3	1,3
Dividend cover (times)	–	–	–	–	2,1
Effective tax rate before impairment (%)	201	(54,3)	26,1	26,7	31,1
Margin – gross (%)	7,4	5,4	6,9	6,7	8,5
– net operating earnings (%)	0,4	(0,7)	1,5	1,3	1,5
Property, plant and equipment – expansion capital expenditure	175	175	384	459	1 220
– replacement capital expenditure	319	649	677	925	867
Operating free cash flow before expansion capital expenditure (Rm)	(950)	(852)	(1 014)	(1 070)	320
Headline earnings growth (%)	48,3	(237,3)	(9,7)	(5,9)	(58,4)
Return on invested capital (%)*	0,7	(1,9)	4,8	3,4	2,5
Return on equity (%)	(2,2)	(4,5)	3,1	3,5	3,8
Number of employees at year-end					
	16 948	25 466	31 768	28 296	33 221

* Comparatives restated in line with Aveng definition for return on invested capital.

	2016	2015	%
	Rm	Rm	change
Operating free cash flow			
Construction & Engineering: South Africa and rest of Africa	364	(1 286)	>100
Construction & Engineering: Australasia and Asia	(2 583)	329	>(100)
Mining	363	193	88
Manufacturing	(29)	167	>(100)
Steel	304	(155)	>100
Other	456	(275)	>100
Total	(1 125)	(1 027)	(10)

	2016	2015		2016	2015
	Rm	Rm		Rm	Rm
Net cash					
Cash	2 450	2 856	Liquidity	2 450	2 856
South African operations	1 009	506	Cash		
McConnell Dowell	1 441	2 350	Less:		
Borrowings	2 984	2 463	Joint operations	(696)	(675)
Convertible bond	1 731	1 651	Advance payments	(308)	(641)
South African operations	348	562	QCLNG advance payment	–	(1 055)
McConnell Dowell	905	250	Short term facilities	(768)	(94)
			Minimum working capital requirements	(900)	(1 200)
Net (debt) / cash	(534)	393	Liquidity requirement	(222)	(809)
QCLNG advance payment	–	(1 055)	Unutilised facilities	1 935	4 188
Adjusted net (debt)	(534)	(662)	Liquidity headroom	1 713	3 379

	2016	2015	2014	2013	2012
	Rm	Rm	Rm	Rm	Rm
Share performance (cents per share)					
Headline (loss) / earnings	(75,2)	(144,3)	112,5	124,6	128,1
Diluted headline (loss) / earnings	(74,4)	(143,8)	104,7	115,9	119,8
(Loss) / earnings	(25,4)	(114,8)	(101,9)	124,6	134,9
Diluted (loss) / earnings	(25,1)	(114,4)	(94,8)	115,9	126,1
Cash generated by operating activities	(440)	(368)	(74)	77	366
Net asset value	3 253	3 119	3 215	3 410	3 310
Dividend	–	–	–	–	60,0
Closing share price	351	575	2 315	2 990	3 580
Number of shares (million)					
In issue	416,7	416,7	416,7	389,8	389,8
Weighted average	397,4	400,6	374,0	373,9	386,0
Diluted weighted average	402,1	402,1	402,1	402,1	412,9
Stock exchange performance (cents per share)					
Market value per share					
– at year-end	351	575	2 315	2 990	3 580
– highest	709	2 445	3 155	3 740	4 260
– lowest	173	575	2 046	2 569	3 187
– volume weighted average price	365	572	2 566	3 102	3 615
Earnings yield (%)	(7,2)	(20,0)	(4,4)	4,2	3,8
Dividend yield (%)	–	–	–	2,0	4,1
Market capitalisation at closing prices**	1 463	2 396	9 274	11 656	13 956
Price to earnings ratio at year-end	(13,8)	(5,0)	(22,7)	24,0	26,5
Value of shares traded	1 403,8	4 843,7	5 718,4	7 884,8	9 618,0
Number of shares traded (million)	384,3	296,9	222,8	254,2	266,1
Average price per share traded (cents)	384	1 689	2 587	3 117	3 603
Percentage of market capitalisation traded (%)	96	202	59	68	69
Rand to AU dollar					
Closing	10,97	9,38	10,03	9,03	8,41
Average	11,14	9,58	9,54	9,08	8,01
Rand to US dollar					
Closing	14,73	12,17	10,68	9,88	8,21
Average	15,04	12,29	10,64	8,84	7,71

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

Refer pages 110 to 132 for more detailed financial information contained in the summarised audited consolidated financial statements. Certain comparatives have been restated in the summarised audited consolidated financial statements, refer note 3 on page 115.



Performance

Operational review

Construction and Engineering: South Africa and rest of Africa



Chris Botha,
managing director
Aveng Grinaker-LTA



Aveng Grinaker-LTA focuses on securing quality projects in strategically targeted markets, ensuring excellent project delivery and implementing innovative approaches to project development, bidding and building to optimise performance. The operating group strives to consistently execute work at margins above those tendered.

Dharmesh Kalyan,
managing director
Aveng Capital Partners



2016 salient features

Aveng Grinaker-LTA

- ◆ Marginal loss of R69 million; break-even achieved after adjusting for restructuring and holding costs
- ◆ Cost reduction completed
- ◆ Management structure stable
- ◆ Loss-making contracts resolved
- ◆ Significant claims largely resolved
- ◆ Substantial positive cash flow
- ◆ Strong brand, reputation and order book for Building operations
- ◆ Civil Engineering and Mechanical & Electrical order book under pressure

Aveng Water

- ◆ Aveng Engineering discontinued
- ◆ Once-off cost of R250 million, of which the majority was incurred by:
 - eMalahleni – R180 million
 - Restructuring cost – R25 million
- ◆ Aveng Water under new management

Aveng Capital Partners

- ◆ Disposal of 70% of industrial property portfolio
- ◆ Strong profits from revaluation of infrastructure investment portfolio (four major project investments) in line with binding offer from a qualified buyer
- ◆ R860 million purchase consideration for infrastructure portfolio





Key:



Buildings
Commercial and civil



Roads & Rail
Construction, tunnels and bridges



Oil & Gas
Plants and pipelines



Mining
Surface and underground



Marine
Ports and sea infrastructure



Power
Fossil fuel, renewables and hydroelectric transmissions



Water
Reticulation, effluent and dams



Process & Industrial
Buildings and plant



Performance

Construction and Engineering: South Africa and rest of Africa continued

Aveng offers multidisciplinary construction and engineering services to its clients in southern Africa and other selected markets in the rest of Africa. It offers a comprehensive range of standalone or integrated services in building, civil engineering, roads, earthworks, concrete, ground engineering, mechanical, electrical, instrumentation and piping contracting, as well as project management, infrastructure investment, water treatment design and facilities operation and maintenance services.

Financial highlights

Rm	2016	2015	Variance (%)
Gross revenue	7 344	8 355	(12)
Gross earnings	227	(136)	>100
Net operating loss	(187)	(697)	73
Aveng Grinaker-LTA	(69)	(575)	88
Aveng Water	(273)	(290)	6
Aveng Capital Partners	194	183	6
Aveng Construction	(39)	(11)	>(100)
Operating free cash flow	364	(1 286)	>100
Capital expenditure	48	96	(50)
Total assets	3 466	4 394	(21)
Total liabilities	2 022	2 439	(17)
Two-year order book	6 558	7 354	(11)

The Construction and Engineering: South Africa and rest of Africa segment comprises Aveng Grinaker-LTA and Aveng Capital Partners. Aveng Engineering has been closed and its operations in the water and operate and maintain sectors combined with Aveng Grinaker-LTA.

2016 performance

Operational performance

Aveng Grinaker-LTA

The revenue of **Building Inland** and **Coastal** increased by 15% to R3,1 billion (2015: R2,7 billion), reflecting a growing order book. Net operating earnings gathered momentum during the year, increasing significantly from a low base to R83 million (2015: R24 million) as the Mall of the South project and Aspen Pharmcare's manufacturing facility in Port Elizabeth were successfully handed over, and the Sasol Head Office in Sandton remained on track for practical completion and handover in October 2016. The joint venture project to build the Old Mutual Head Office in Sandton is progressing well and is on schedule for completion in October 2017.

Activity levels in the coastal operations remained on target, with extensions to the Cape Town International Convention Centre scheduled for completion by December 2016 and the superstructure of Dr Pixley Ka Isaka Seme Memorial hospital in KwaZulu-Natal completed at year-end, with full completion of the project scheduled for late 2018.

Several new projects were awarded in the commercial and industrial sectors of Gauteng, Western Cape, Eastern Cape and KwaZulu-Natal. These include the 129 Rivonia development (situated on the site of the previous Village Walk in Sandton), the first and second phases of the Leonardo Towers in Sandton, an Absa Data Centre upgrade in Randburg, Centrepoint shopping centre and two Campus Key student residences for UCT in Cape Town, Shelley Beach Hospital and Chatsworth shopping centre in KwaZulu-Natal and a new testing facility at Coega IDZ in Port Elizabeth.

New awards in the rest of Africa included the Hilton Hotel in Swaziland and a Virgin

Active gym in the Windhoek Maerua Mall in Namibia.

The development of partnerships with provincial and municipal authorities to facilitate the business unit's expansion into the local infrastructure project market has delivered promising results. Management contracts concluded with the Western Cape Departments of Education and Health have resulted in the award of work in those sectors, in partnership with empowered subcontractors. Similar relationships with the Development Bank of South Africa and the Ekurhuleni Municipality in Gauteng have resulted in the award of design and construct contracts to refurbish public infrastructure, while work with an empowered partner on the development and construction of the City of Johannesburg's City Chambers in Braamfontein has progressed well and is nearing completion. In the Eastern Cape, the business unit arranged financing for the Coega Development Corporation for a project undertaken by automotive parts manufacturer, Rehau.

Two-year order book by business unit



Aveng Grinaker-LTA has been transformed into a leaner, more disciplined and resilient business, led by a stable management team that has established a solid base for future growth.



The revenue of **Civil Engineering**, including Aveng Rand Roads and Aveng Ground Engineering declined by 26% to R2,3 billion (2015: R3,1 billion), reflecting lower levels of activity in a smaller and even more competitive civil infrastructure market. However, the business unit achieved a turnaround in its financial performance, reporting operating earnings of R16 million (2015: R367 million loss) as most major loss-making projects were completed and significant progress was made in delivering tendered contract margins.

The Grootegeluk Cyclic Ponds contract was completed and the Majuba Rail project entered its final stages with large sections handed over to Aveng Rail. Claims on both the Mokolo Pipeline project and the Majuba Rail contract are in a legal dispute process. Work proceeded on new road construction at two sections of the N1 highway at Trompsburg and Ventersburg and the major rehabilitation of the R61 at St Marks and

All Saints in the Eastern Cape. In the absence of major projects, the business unit reduced its cost base, while increasing client engagement to position for available opportunities.

The financial performance of a more focused Aveng Rand Roads improved as demand for road rehabilitation work increased in Gauteng and surrounding areas. Better market conditions are expected to increase the operation's asphalt and binder sales in the new financial year, albeit at competitive margins.

Aveng Ground Engineering performed well and is likely to achieve further growth in 2017 as it increases its footprint in the Western Cape.

Mechanical & Electrical reported an overall 17% decline in revenue to R1,5 billion (2015: R1,8 billion) due to lower levels of activity in the commodity and resource

markets, although revenue from the power projects was higher than the prior financial year as a result of acceleration measures taken to meet Eskom's revised milestone dates. Negative impacts on the operating margin of losses incurred in closing out the Sasol MT7 project and the cost of settling outstanding issues in the Alstom power project partnership contributed to an increase in the operating loss to R143 million (June 2015: R108 million loss). Due to the limited availability of structural, electrical, mechanical and piping work, the business unit shifted its focus to operations and maintenance contracts and was rewarded with major maintenance contract awards by Sapref in the Oil & Gas sector. Establishing a presence in the Western Cape to service the Chevron oil refinery in Cape Town was one of a number of other opportunities pursued in the sector.

Performance

Construction and Engineering: South Africa and rest of Africa continued

Aveng Water, which was restructured and reorganised into a water focused business, reported a 56% decline in revenue to R309 million (2015: R705 million). This was attributable to the completion of construction work on water and power plants and progression to commissioning and operations. The Gouda Wind Farm was completed and handed over, while construction of eMalahleni Phase 2B is scheduled for completion before December 2016. Both projects incurred additional costs and liquidated damages which contributed to an operating loss of R273 million (2015: R290 million loss). Operations and maintenance contracts remain in place at a number of water treatment plants, including the Middelburg and eMalahleni plants in South Africa and the Erongo desalination plant in Namibia.

Aveng Capital Partners

The net operating earnings of Aveng Capital Partners increased by 7% to R194 million as a result of the recognition of marginally higher revaluation gains. Subsequent to year-end, four major project investments were sold for R860 million, subject to conditions precedent. Aveng Capital Partners has retained investments in the rehabilitation contract of the N1 highway between Polokwane and Bela Bela for the South African National Roads Agency and the remaining 30% of the Dimopoint property portfolio and will continue to pursue new investment opportunities for the Group.

Safety, health and environment performance

An overall improvement in safety was reflected in zero fatalities in work environments controlled by Aveng Grinaker-LTA, a LTIFR of 0,17 (2015: 0,18) against the target of 0,16 and an AIFR of 2,05 (2015: 2,2). Interventions to strengthen the safety culture, including the provision of safety awareness training and implementation of a safety, health and wellness and environmental culture maturity assessment framework throughout the operating group contributed to the overall improvement in performance.

All safety professionals have submitted applications for registration to the South

African Council for Project and Construction Management Professions, as legally required.

To mitigate the high risk of transport-related accidents in the construction industry, risk-based driver training was provided to machine operators and other staff. Aveng submitted a position paper to Sanral to emphasise risk exposure during road construction and maintenance projects in South Africa.

No major environmental issues were reported.

All business units were recertified in the safety, health and environmental management systems OHSAS 18001, ISO 14001 and ISO 9001. The Plant and Assets operation achieved OHSAS 18001 certification.

Human capital performance

Performance management remains a key focus area, with established procedures supported by training and development in critical commercial, engineering and safety skills. The impact of performance management is evident in improved operational performance, where project management and staff have a clear understanding of their roles, what is expected of them and what they are accountable for.

There is a strong focus on recruiting the right people, retaining them and ensuring that they are adequately supported by a culture of safety, financial discipline and development. This has enabled the operating group to enhance performance management with carefully selected new appointments which have strengthened leadership capacity in Aveng Water, the Mechanical & Electrical and Building business units, and human resource management.

Aveng Grinaker-LTA offers an extensive range of accredited leadership development, skills training, apprenticeship and learnership programmes. The Aveng Grinaker-LTA graduate programme currently has a cohort of 32 graduates completing their first and second years of study, 13% of whom are female and 23% black

participants. The Aveng Grinaker-LTA mentorship programme for professional registration with the Engineering Council of South Africa has 24 candidates on the civil engineering internship and 19 on the mechanical engineering programme. Ten of the 43 candidates are female and 31 are black.

Aveng Grinaker-LTA reduced its headcount by 32% to 5 870 as a result of the restructuring programme.

Although this has had an adverse impact on some employment equity initiatives, the operating group has developed capacity building plans to address gaps, and some business units have excelled. In particular, a talent fast-tracking programme established by the Building Coastal business unit assigns mentors and coaches to candidates to support their development.

Transformation

The operating group maintained its level 2 B-BBEE rating based on 2015 performance and is preparing to implement the revised codes of good practice during the new financial year, with a strong focus on improved performance in employment equity and enterprise development.

The introduction of a transformation partner or partners with a significant equity interest in the business would support the transformation of Aveng Grinaker-LTA and position it for future growth in the domestic market.

Aveng has embarked on a partnership with the Department of Trade and Industry to open the first Construction Sector Incubator in South Africa. The R30 million project intends to create 40 construction sector business owners and more than 160 jobs. The business owners will be trained, developed and mentored over this period and on graduation they will be integrated into the supply chains of Aveng and selected partners to ensure sustainable growth. The project is key to Aveng's enterprise and supplier development strategy and will play an integral part in transforming the sector.

Looking ahead

Growth in the South African construction and engineering industry is expected to remain subdued until 2018. Therefore, 2017 will be a year of positioning for slow economic recovery and the resumption of opportunities.

The Construction and Engineering: South Africa and rest of Africa segment commenced the new financial year with a two-year secured order book of R6,6 billion (2015: R7,4 billion), approximately R4,6 billion of which is scheduled for 2017.

A key challenge in 2017 will be increasing the revenue of Civil Engineering in persistently difficult market conditions to restore a balance between the core disciplines and achieve target margins. The business unit has made significant progress in completing loss-making projects and improving the margin on joint venture power contracts, and has been vigilant in reducing costs in line with market contraction in civil infrastructure. Throughout this process, it has maintained a presence in its markets, and, with its restructuring complete, is well positioned to participate in new opportunities.

The alignment of Aveng Water with Aveng Grinaker-LTA has realised efficiencies and strengthened the operating group's capacity to pursue operations and maintenance work to mitigate an ongoing decline in other contracting opportunities. Their alignment has further strengthened the engineering, design and delivery capacity of Aveng Water which is leveraging its competitive advantage in response to growth opportunities in the South African mining and municipal water sectors.

While the weak trend in commodity pricing has impacted the strategy to expand in Africa, there have been several new awards in southern Africa, including the Hilton Hotel in Swaziland, the Virgin Active gym in Namibia, and an electrical and instrumentation contract for the Letlhakane Mine Tailings Resource Treatment Plant project at the Debswana mine in Botswana. The operating group will continue to pursue opportunities in building, civil engineering and operation and maintenance in the transport, mining and energy sectors for select clients in the rest of Africa.

Four Coastal business unit sites achieved five-star Master Builders Association rating

Mechanical & Electrical fabrication facilities achieved seven years LTI-free

The eMalaheni project achieved five years LTI-free



Performance

Construction and Engineering: Australasia and Asia



Scott Cummins – managing director

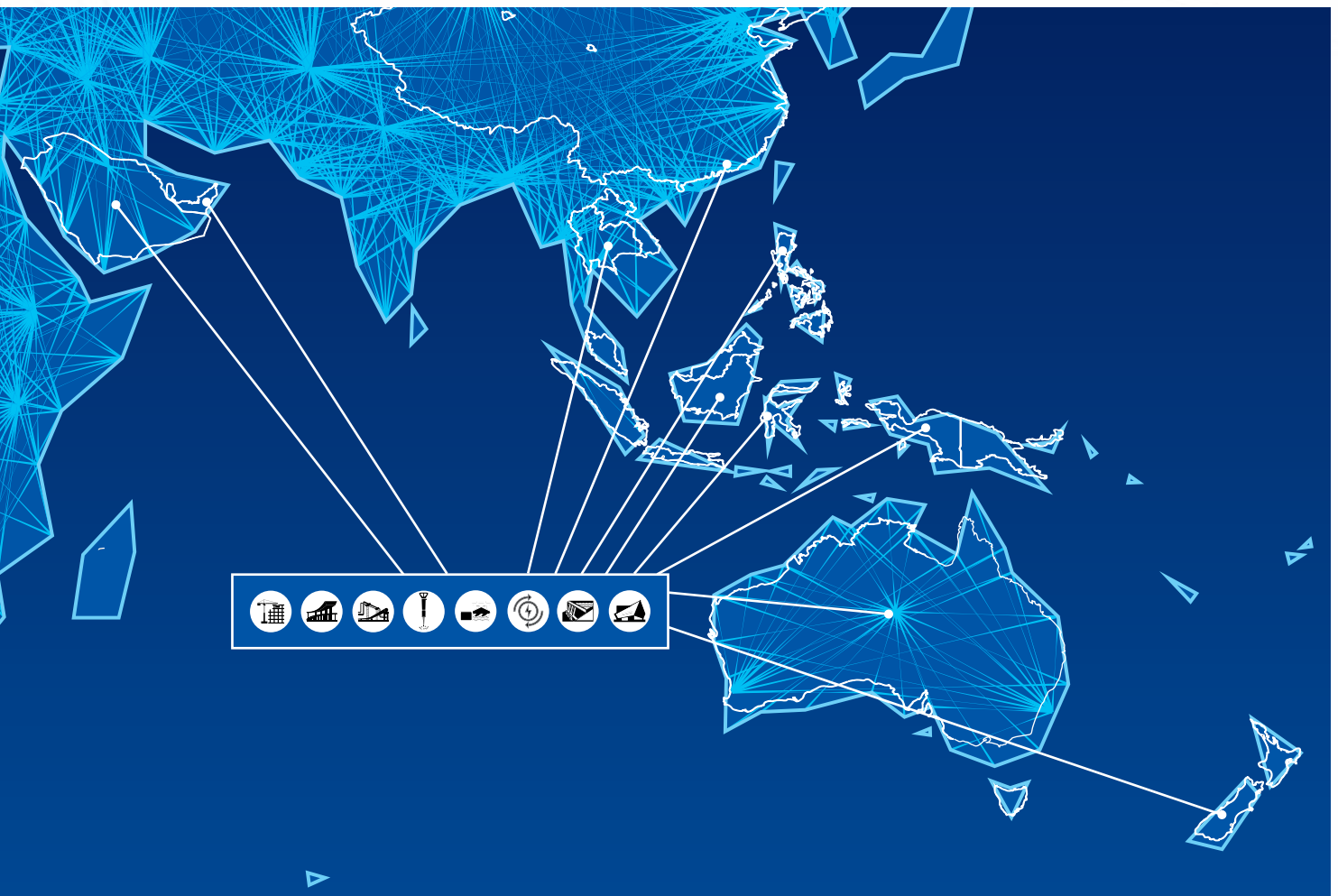


McConnell Dowell has been reset to be more nimble, flexible and responsive to the market and customers, and is well positioned to take advantage of emerging market opportunities.

2016 salient features

- ◆ Restructuring completed
 - Senior management changes
 - Flat structure focuses on delivery and predictability
- ◆ Business cost base aligned with lower revenue
- ◆ Overheads down by 18% in 2016
- ◆ More selective pipeline and tender management
- ◆ Negative cash flow in 2016 impacted by QCLNG advance repayment, restructuring costs and increase in net working capital
- ◆ Order book increased by 22% with an improved embedded margin
- ◆ Strong performance in Southeast Asia and New Zealand and Pacific
- ◆ QCLNG claim:
 - Arbitration hearings complete
 - Award date anticipated in 2017 calendar year
 - Award will be cash accretive
 - Earnings remain at risk
- ◆ GCRT claim:
 - Legal process ongoing
 - Anticipated outcome in 2018 financial year
 - Award will be cash accretive
 - Earnings remain at risk





Key:



Buildings
Commercial and civil



Roads & Rail
Construction, tunnels and bridges



Oil & Gas
Plants and pipelines



Mining
Surface and underground



Marine
Ports and sea infrastructure



Power
Fossil fuel, renewables and hydroelectric transmissions



Water
Reticulation, effluent and dams



Process & Industrial
Buildings and plant



Performance

Construction and Engineering: Australasia and Asia continued

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

Financial highlights

	AUDm			Rm		
	2016	2015	Variance (%)	2016	2015	Variance (%)
Gross revenue	1 264	2 202	(43)	12 828	20 912	(39)
Gross earnings	98	130	(25)	1 091	1 234	(12)
Net operating earnings	1	9	(89)	14	112	(88)
Operating free cash flow	(235)	28	>(100)	(2 583)	329	>(100)
Capital expenditure	13	28	(54)	150	262	(43)
Total assets	975	1 183	(18)	10 699	11 097	(4)
Total liabilities	402	671	(40)	4 410	6 295	(30)
Two-year order book	1 505	1 229	22	16 510	11 629	42

2016 performance

Operational performance

The Construction and Engineering: Australasia and Asia operating segment has streamlined its organisational structure into four business units – Australia, New Zealand and Pacific, Southeast Asia and Built Environs. The Middle East business remains a joint venture operated in partnership with Dutco.

The revenue of the **Australian** business unit declined by 57% to AUD525 million (2015: AUD1,2 billion). The Webb Dock, Melbourne Airport PUGs taxi lane reconstruction and Brisbane City Council Ferries and Boardwalk projects continue to perform ahead of expectations. Significant contributions to revenue came from the K2K Pacific Highway Upgrade contract in New South Wales, the Roy Hill contract in Western Australia, and repeat business. However, operating earnings declined to a loss of AUD43 million (2015: AUD16 million) due to cost overruns on a number of projects and the impact of restructuring costs, legacy projects and high tendering costs.

New work won during the year, including the Northern Gas Pipeline, Barangaroo Ferry Terminal project in Sydney, Rio Tinto's Amrun project in Queensland and rail upgrade and track maintenance packages, together with ongoing delivery of the O'Bahn City Access project, offer a strong baseload for the Australian business in 2017.

A number of claims remain under negotiation. The BHP Billiton Mitsubishi Alliance issued a completion certificate for the Hay Point works in April 2016 with no defects to repair. The process of lodging and negotiating claims relating to the GCRT contract is progressing according to plan. However, negotiations are expected to be protracted and the final outcome expected in 2018, remains uncertain and a material risk to the Group. Given the complexities of the QCLNG claims, the arbitrators have indicated the final outcome is likely to be delayed to the first half of the 2017 calendar year. While claims settlements in the future will be cash accretive, they remain a material risk to earnings.

Southeast Asian operations continued to perform strongly in all major regions although the effects of the Oil & Gas crisis, a slowing in the Chinese economy and investor caution due to political uncertainties in some parts of the region contributed to a 35% reduction in revenue to AUD371 million (2015: AUD560 million). Net operating earnings of AUD49 million remained the same as in 2015.

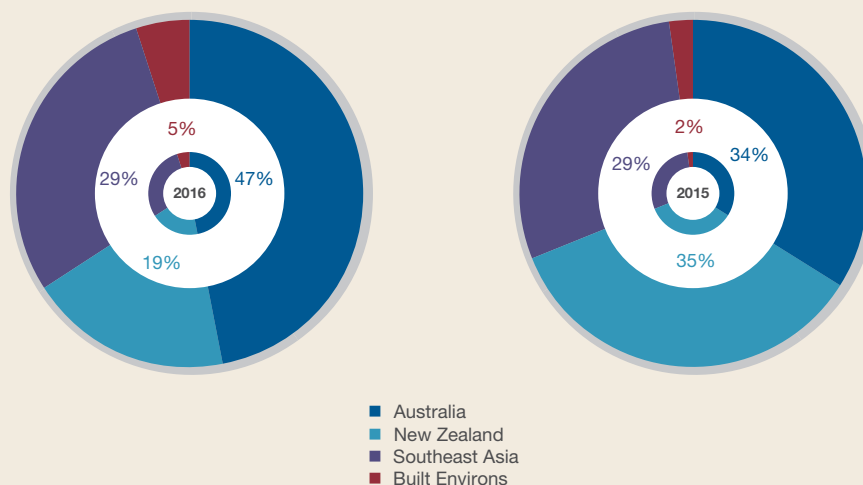
Important new contracts included four underground infrastructure packages, a jetty with a long term customer and the Tuas bridge project in Singapore. In Malaysia, McConnell Dowell was awarded civil and mechanical piping packages and the design and construction of the solids product jetty on the RAPID Mega Development. In the Philippines, a repeat customer awarded

McConnell Dowell the Maris hydro power plant.

Project delivery highlights included the completion of the Fourth Transmission Pipeline Project in Thailand, the completion and handover of the Singapore Land Transit Authority's (LTA) projects, comprising three underground stations and five kilometres of 6,5 metre bored tunnel, which enabled the LTA to open the Downtown Line 2 in time for the country's 50-year Jubilee celebrations. The delivery on schedule of IKEA's flagship store in Malaysia by the Industrial Buildings team strengthened the operating group's capability in this area. In Indonesia's Riau Islands McConnell Dowell delivered Oiltanking's Karimun marine terminal, comprising four jetties and mechanical topsides.

The **New Zealand & Pacific** business experienced a mixed year. Revenue increased by 6% to AUD323 million (2015: AUD305 million) and although the operation returned to profitability with net operating earnings of AUD10 million (2015: AUD0,1 million loss), this was below expectations. The New Zealand operations reported strong results from most projects, offset by losses on two underperforming contracts. The Waterview tunnel progressed well and margins improved, while the Christchurch earthquake repairs work achieved budgeted margins. Work commenced on the Russley Road and Mangere BNR projects. A number of new contracts awarded include the City Rail Link

Two-year order book by business unit (AUDm)



McConnell Dowell is experiencing continuing growth in infrastructure investment across Australia, Southeast Asia and New Zealand, resulting in much stronger opportunities for the business than a year ago.



early works in Auckland and the North Otago Irrigation Company project. McConnell Dowell also secured new work in the utilities sector in South Auckland.

In the **Pacific**, the Tonga and Tuvalu runway projects were completed and an improvement was achieved in the final outcome of the Kiribati works, which are expected to be completed in the first half of 2017. The American Samoan business was impacted by a lack of work, but two recent awards improved prospects for 2017.

Built Environs secured and commenced work on two significant projects in South



Australia, the Modbury Hospital redevelopment and the Urbanest student accommodation project, and work was completed on Perth Airport Terminal 1, which is now operational. However, revenue declined by 65% to AUD45 million (2015: AUD132 million).

To further strengthen Built Environs, new regional managers were appointed in the South Australian and Western Australian offices. Their local knowledge and strong customer relationships are expected to add value to project delivery and business development activities.



Built Environs is well positioned to capitalise on an upturn in infrastructure investment across its key markets.

2015 was a difficult year for the **Middle East** business, which reported a loss mainly due to underperforming legacy projects and challenging trading conditions. A restructure of this business unit aligned the overhead with market conditions and lifted the performance of these projects.

The business was streamlined, with management consolidated in Dubai to support the regional offices in Qatar, Saudi Arabia, Abu Dhabi and Oman. There was a

Performance

Construction and Engineering: Australasia and Asia continued

strong emphasis on refocusing on core strengths (mechanical fabrication and installation, pipelines and tunnels) and strengthening relationships with key customers.

Projects won in the prior year are performing well, with two notable projects delivered in the first half of 2016: in Dubai, the Dusup MCI Project was completed ready for commissioning, and in Abu Dhabi, the tunnelling for the Transco Bahria to Saadiyat project was completed.

Three new contracts were awarded in 2016, including the brownfield fabrication and installation of cathode rings, secured on the back of an existing package, a major pipe spooling package for the new Al Taweelah Alumina Refinery in Abu Dhabi and pipe string fabrication and installation in the ADCO Al Dabbiya Field.

Safety and health performance

McConnell Dowell experienced another year of successful health and safety management. Initiatives were implemented to improve subcontractors' understanding of McConnell Dowell's health and safety standards and align them with the McConnell Dowell health and safety culture. The New Zealand business is adjusting to the new Health and Safety at Work Act 2015, which came into effect in April 2016. Employees stepped up the reporting of potential hazards and this contributed to ongoing improvement in the LTIFR and AIFR. The focus on health and safety enabled the achievement of a reportable injury frequency rate of 3 (2015: 5,14) against a target of 6 and a LTIFR of 0,66 (2015: 0,46) against a target of 0,5. The Loyang plant yard in Singapore increased its LTI-free record to 15 years.

McConnell Dowell's investment in the new CMO HSEQ database resulted in improvements in data collection and reporting. The new app-based database allows project teams greater flexibility in the field to input incident data and generate reports. CMO enables reporting on incident trends and analysis of project data. In addition, CMO will be used as an audit tool with a risk module implemented in 2017.

Environmental performance

McConnell Dowell continued to experience excellent environmental performance with no serious environmental incidents recorded and a serious environmental incident frequency rate of 0.

This outcome was the result of consistent application of the environmental elements of the McConnell Dowell management system, and a strong focus on environmental awareness. In early 2016, McConnell Dowell introduced a new suite of Environmental Green Rules as partner to the Safety Golden Rules, and continued with a series of environment and sustainability shared learning sessions to share lessons learnt and disseminate knowledge throughout projects and tenders.

McConnell Dowell successfully underwent ISO 14001 recertification in late 2015 and retained its certification across the group for a further three-year period.

McConnell Dowell's approach to sustainability continues to strengthen. In 2016, McConnell Dowell contributed for the first time to the Aveng Group's Carbon Disclosure Project and Water Disclosure Project reporting and strategy-setting for climate change and water management. The operating group maintained its association with the Infrastructure Sustainability Council of Australia as Co-Chair of the Contractor's Working Group.

Human capital performance

2016 was a year of considerable organisational change. Following David Robinson's retirement and the appointment of Scott Cummins as managing director, several key executive appointments and significant changes to the composition of the executive committee (EXCO) were made. Jim Frith was appointed managing director of Australia and Murray Dundas was appointed managing director of Southeast Asia. External appointments were made to strengthen capacity in commercial, business development and strategy, and human resources management.

Across McConnell Dowell, and driven by the conclusion of several large projects in Australia and Southeast Asia and a shift to contingent labour, headcount declined by 39% to 3 453 at June 2016.

Looking ahead

McConnell Dowell is experiencing continuing growth in infrastructure investment across Australia, Asia and New Zealand, resulting in much stronger opportunities for the business than a year ago.

The operating group commenced 2017 with a two-year order book of AUD1,5 billion (2015: AUD1 billion), strengthened by new awards secured in the second half of 2016.

Across **Asia**, urbanisation and a growing middle class is fuelling growth in infrastructure and energy markets. This is driving steady growth from a high base in Singapore and a lower base in the less developed nations. Political reform is making investment more attractive across the region. Major growth sectors will be secondary airports, heavy rail, metropolitan rail systems, roads and port facilities, water, and the building or industrial sector, including health, pharmaceutical, aged care facilities, data centres, aviation and transport.

The **New Zealand** economy is expected to grow by between 2,5% to 3,5% annually, fuelling growth in the construction sector over the next five to 10 years. The growth is driven by population and residential growth and the need for infrastructure renewal. In the infrastructure sector, growth will be focused primarily on Auckland, Northland, Waikato and Christchurch, with opportunities in road and rail, three waters and irrigation, ports and airports. In transport, government will prioritise greater efficiencies in the transport sector by ensuring that the transport network (roads, rail and ports) is inter-connected. Collaboration among government and infrastructure owners is supporting coordinated investment activity, while the use of public private partnerships is expected to become more prevalent as a means of overcoming the funding gap to meet demand requirements.

The **Pacific** region is expected to grow by an average of 3,8% in 2016, down from 7% last year, mainly due to pressures faced by Papua New Guinea and Fiji. Growth in the South Pacific economies of the Cook Islands, Samoa, Tonga and Vanuatu is expected to remain low but steady over the

outlook period. Public investment, additional sources of finance, and business environment reforms are likely to drive growth prospects. Fiji's GDP has been growing at an average of 4% annually. Pacific population demographics are changing, with some countries experiencing declining populations and other significant increases, such as Kiribati. Climate change is also expected to be an increasing driver of activity in the Pacific, with increased spending to address water security.

In **Australia**, depressed commodity and oil prices are unlikely to recover in the near term and the likelihood of significant growth in Queensland and Western Australia is low. The continued slow pace in the mining and Oil & Gas sectors is offset by substantial infrastructure spending in the broader infrastructure market, particularly in New South Wales, Victoria and South Australia. The various state governments, with Federal Government support, have announced increased infrastructure investment, mainly in the road, rail, water and power sectors. Defence also presents a market opportunity.

McConnell Dowell's Built Environs, Middle East and Australia regions operated at an LTI of ZERO in 2016

The Loyang plant yard in Singapore increased its LTI-free record to 15 years.



Performance

Mining



Stuart White, managing director



Aveng Mining responded decisively to the challenges in its operating environment, reducing its cost base by merging its two business units and awarding discounts to reduce project costs, while maintaining client relationships and intensifying efficiency improvements to mitigate the consequent erosion of profit margins.

2016 salient features

- ◆ 2016 was characterised by contract cancellations and price reductions
- ◆ Swift response:
 - Reduced contract costs
 - Reduced overhead costs
 - Restructured and fully integrated the two businesses
- ◆ Reasonable financial performance in difficult markets
- ◆ Positive cash flow for the year
- ◆ Idle equipment ratio increased
- ◆ Successfully completed the Chile contract. Claims settled and shaft bottom reached ahead of revised plan
- ◆ Continuing contractual and commercial discussions regarding Wesizwe's Bakubung Platinum Mine
- ◆ Strong operational performance on most contracts
- ◆ New project awards:
 - Taparko Mine, Burkina Faso
 - Khutala Colliery Mine, South Africa
 - Lefa Mine, Guinea





Key:



Buildings
Commercial and civil



Roads & Rail
Construction, tunnels and bridges



Oil & Gas
Plants and pipelines



Mining
Surface and underground



Marine
Ports and sea infrastructure



Power
Fossil fuel, renewables and hydroelectric transmissions



Water
Reticulation, effluent and dams



Process & Industrial
Buildings and plant



Performance

Mining continued

Aveng offers services across the mining value chain, from turnkey solutions in shaft sinking, underground development and contract mining for surface and underground mining, to construction of mine infrastructure. These activities span a broad range of commodities and the Group has extensive experience in remote and difficult locations.

Financial highlights

Rm	2016	2015	Variance (%)
Gross revenue	5 026	5 956	(16)
Gross earnings	440	698	(37)
Net operating earnings	276	413	(33)
Operating free cash flow	363	193	88
Capital expenditure	151	257	(41)
Total assets	3 952	4 380	(10)
Total liabilities	1 425	2 027	(30)
Two-year order book	4 906	7 902	(38)

Aveng Mining comprises the business units of Aveng Moolmans (surface mining) and Aveng Shafts & Underground (shaft sinking, access development and contract mining). During 2015, the two mining businesses were integrated under a single leadership structure with shared premises and services.

2016 performance

Operational performance

The severe impact of weak commodity markets on the surface mining operations was exacerbated in the second half of the financial year when the Sishen iron ore mine reduced production volumes significantly with effect from December 2015. As part of the operating group's ongoing engagement with its clients to ensure that partnerships extend beyond economic cycles, Aveng Mining agreed to revise the scope of work at the Tshipi é Ntle manganese mine to a reduced volume, while maintaining the five-year contract. The scope of work will be reviewed in 2017. These cutbacks contributed to a 24% decline in the revenue of **Aveng Moolmans** to R3,5 billion (2015: R4,6 billion) and increased the ratio of unencumbered idle fleet. Discounts awarded to clients impacted the operating margin and Aveng Mining worked with clients to assist in reducing costs and regain some of the margin loss through productivity and efficiency improvements. Anticipated cutbacks at Nkomati nickel

mine did not materialise and the scope of work on the contract was increased. A number of long term contracts were extended: the Kolomela iron ore mine in the Northern Cape to December 2017, Langer Heinrich uranium mine in Namibia to December 2020 and Sadiola gold mine in Mali, West Africa to December 2016. These extensions were all renegotiated at lower margins which will impact operating profits in 2017.

New opportunities in surface mining are being pursued to strengthen the operating group's order book and improve the commodity and geographic balance of its portfolio. As a consequence of this drive, a new two-year outsourcing contract to mine waste and ore at the Taparko mine in Burkina Faso was awarded by mid-cap international mining company Nordgold. The development of a relationship with this new client resulted in a second short term contract mining opportunity in Guinea, enabling the business unit to strengthen its presence in West Africa, a region it first entered in 1996. Subsequent to the financial year-end, South 32 awarded Aveng Mining a 30-month contract for its Khutala coal mine.

A number of key issues were resolved in 2016 including:

- ◆ The receipt of full and final payment of arrears for work undertaken at the

Phoenix mine in Botswana, where mining operations were suspended in December 2015

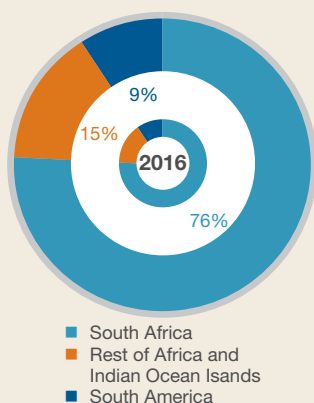
- ◆ Agreement on the final measurement for work completed on two contracts for one client in West Africa
- ◆ Agreement on the termination of a rental contract with Barloworld Equipment with no material financial impact.

The revenue of **Aveng Shafts & Underground** increased by 7% to R1,5 billion (2015: R1,4 billion).

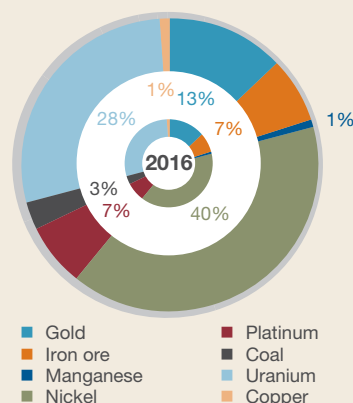
Interventions to return the underground mining operations to profitability succeeded during the year, largely as a result of cost savings associated with the merger of the mining business units and improved discipline in commercial processes. The settlement of all claims on the Chilean Chuquicamata copper mine contract in December 2015 further enhanced the business unit's financial position.

The positive impact of operational improvements and a more selective approach to bidding for new work was evident in the performances of underground mining contracts. The Chuquicamata project performed above operational and financial expectations, achieving shaft bottom at 918 metres by mid-July 2016, ahead of a revised plan. The project is scheduled for completion in October 2016. A sound relationship with the client,

Revenue by geography



Two-year order book by commodity



Aveng Mining continues to focus on continuous efficiency improvements to mitigate the impact of lower levels of work and undertakes contracts with sound clients on viable projects offering sustainable profit margins to ensure a balance between revenue growth and profitability.



Codelco, enables the business unit to bid for new work in the South American region.

In South Africa, the Kalagadi manganese mine project is largely complete with minor work outstanding as a result of scope changes by the client. This is expected to be completed by the third quarter of the 2017 financial year. An improved performance was achieved at the Sasol Shondoni coal project which is due to be completed in 2017. Long term shaft sinking and development work on Ivanhoe's Platreef platinum mine and a horizontal tunnelling development contract at the Assmang



Black Rock manganese mine both progressed to plan and the scope of work at Black Rock was completed in July 2016 with demobilisation completed in August 2016. The Platreef contract is scheduled for completion in 2018.

Despite our rigorous efforts to improve productivity and labour relationships at Wesizwe's Bakubung platinum mine, the financial performance of this contract remained unsatisfactory and an additional loss was recorded. Extensive commercial discussions continue with the client in



parallel with the pursuit of contractual claims.

Safety, health and environment performance



Aveng Mining completed the financial year with zero fatalities (2015: five) and further improvements in the combined LTIFR of 0,29 (2015: 0,40) and AIFR of 1,27 (2015: 1,72). This achievement is attributable to a risk-based approach which ensures that all administrative and engineering controls are well understood by the workforce as they conduct high-consequence activities in line

Performance

Mining continued

with safe operating procedures and work instructions.

A number of the mining projects recorded significant safety milestones. The Dishaba platinum mine and Langer Heinrich uranium mine operations achieved more than five and two years, respectively, without lost time injuries, while the Sadiola gold mine operations achieved more than five million lost time injury-free hours.

Aveng Moolmans and Aveng Shafts & Underground were both accredited to ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 in 2016. In 2017, Aveng Mining will be the first mining business to have an integrated safety, health, environment and quality (SHEQ) management system for both business units, as joint certifications for ISO 14001:2015, ISO 9001:2015 and OHSAS 18001:2007 (or ISO 45001:2015) will be undertaken following a risk-based approach. This will ensure that SHEQ systems, procedures and programmes are integrated and that a holistic approach to SHEQ governance and assurance is maintained.

Aveng Mining has embraced global environmental and sustainability initiatives, achieving specific milestone projects such as a zero waste recyclable project, reduced carbon emissions using an approved fuel additive on a 1 000 hour test trial, in line with CDP disclosure of lower fuel consumption, and the installation of water-saving devices at the head office site.

Human capital

Aveng Mining strengthened its management team with the appointments of Trevor Naidoo as finance director and Vincent Matlala as human resources executive. Both are contributing significant value in their fields of expertise and infusing new thinking into the business.

Vincent has been instrumental in driving organisational cultural alignment following the merger of the surface and underground businesses. Elevated focus is being placed on high-performance programmes throughout the operating segment. Programmes, forums and structures are being introduced to sustain the high-

performance culture, build the leadership pipeline and drive the benefits of an integrated business.

Aveng Mining attained a level 2 B-BBEE rating, which is valid until October 2016. More work and focus is required to sustain this trend in future.

Concerted effort is being put into optimising the human resource operations in line with business strategy. Progress was made in aligning the remuneration regimes of the surface and underground operations to achieve further cost saving and improve governance.

A range of internal accredited training and development programmes provided by Aveng Mining ensure continuous learning and development for employees at a lower cost than that of external training. These include first-line management training, technical training scope extension and the acquisition of a range of Mining Qualifications Authority accreditations.

The headcount of Aveng Mining reduced by 34% to 3 717 at 30 June 2016 as a result of optimisation measures in 2016.

Looking ahead

The two-year order book of Aveng Mining declined by 38% to R4,9 billion (2015: R7,9 billion) as a result of the cancellation of projects in underground mining and severe cutbacks at major surface mining projects in South Africa.

As Aveng Mining seeks to rebalance the geographic and commodity weighting of its order book, it is focusing on new opportunities in the rest of Africa and beyond Africa to increase its international portfolio, while maintaining its domestic market share. The operating group is leveraging the track record Aveng Moolmans established in the rest of Africa to pursue gold mining opportunities, particularly with junior miners in surface and underground mining. In South America, the successes achieved at the Chuquicamata mine may open up opportunities in Peru and Brazil. Opportunities in the domestic market include surface coal, zinc and platinum mining.

Although investment in mining is likely to remain constrained until 2019, Aveng Mining experienced an increase in the number of gold mining opportunities coming to market during the final quarter of the 2016 financial year. However, the long lead time from bidding to award of contracts means that mining contractors are unlikely to experience the benefit of this trend in the next 12 to 18 months.

Aveng Mining will continue to focus on continuous efficiency improvements to mitigate the impact of lower levels of work and will ensure that contracts are undertaken with sound clients on viable projects offering sustainable profit margins to ensure a balance between revenue growth and profitability.

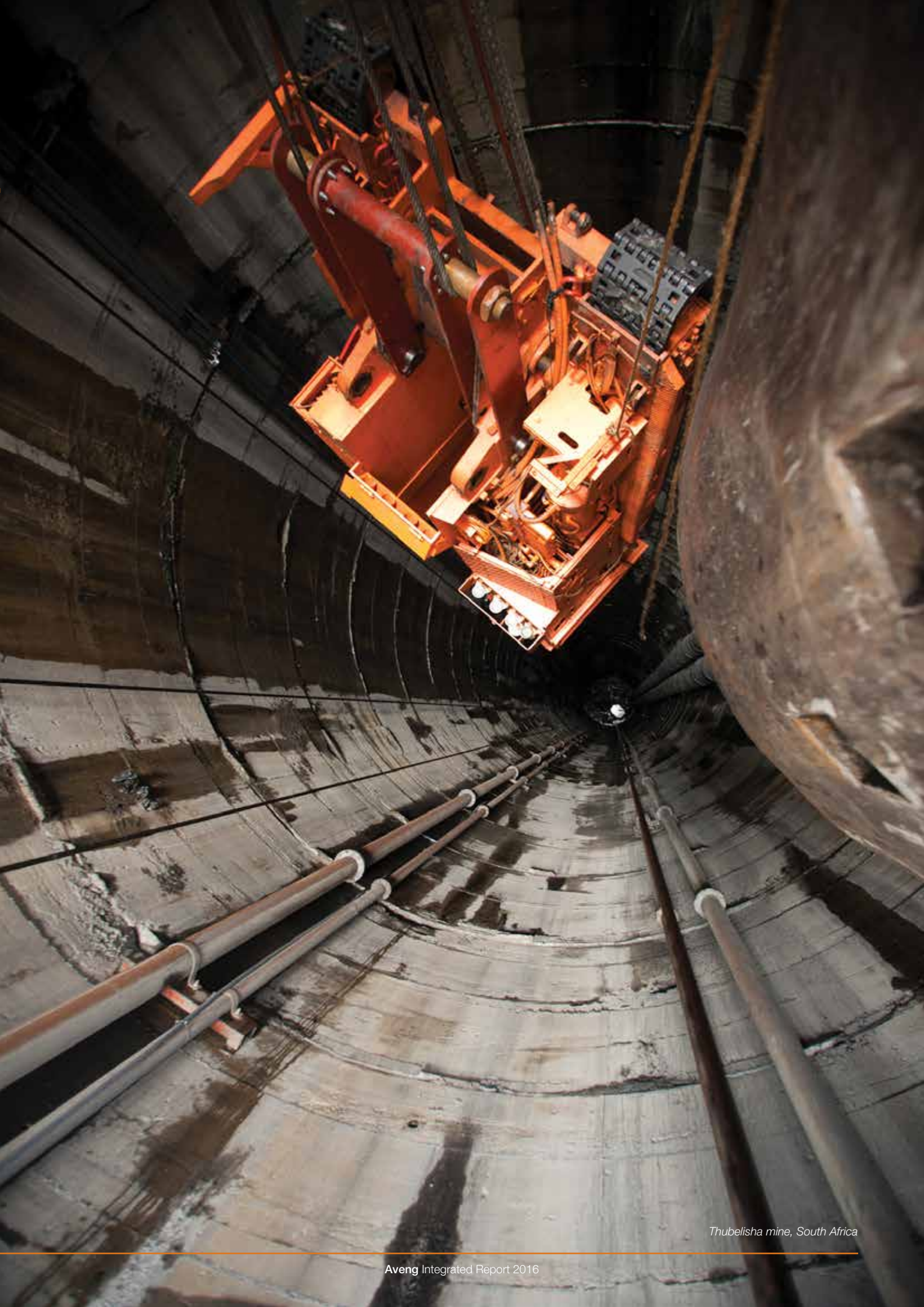
As it enters the new financial year, Aveng Mining is well positioned to pursue and take up opportunities as they arise. Clients favour the outsourcing of work to contractors that use their own equipment as this reduces capital requirements and mitigates the risk to clients. Aveng Mining owns a well-maintained, financially unencumbered fleet – and this represents another significant competitive advantage.

Tumelo shaft operations achieved

4,6 years
LTI-free

Sadiola mine project achieved over

5,6 million
hours LTI-free



Thubelisha mine, South Africa

Performance

Manufacturing and Processing



Solly Letsoalo, managing director, Aveng Manufacturing

Hercu Aucamp, managing director, Aveng Steel



Aveng Steel has been stabilised and the operating group is focused on future growth, including opportunities in the power and vehicle manufacturing sectors. Despite the challenging environment, the outlook for Aveng Manufacturing remains encouraging.



2016 salient features

Aveng Manufacturing

- ◆ Weak manufacturing, mining and construction market adversely affected performance, mainly in the second half
- ◆ Reduction in rail maintenance impacted mechanised rail maintenance contracts and sleeper volumes
- ◆ Roof tile and paving facilities performing at full capacity
- ◆ Capital expenditure increased roof tile and valve manufacturing capacity
- ◆ Profitability and cash flow below expectations

Aveng Steel

- ◆ Most difficult trading conditions in decades
- ◆ Weak international steel price and low domestic demand
- ◆ Significantly impacted by price reductions in first half of year
- ◆ Restructuring and cost saving initiatives evident in results
- ◆ EBITDA positive in second half
- ◆ Cash flow positive despite difficult market conditions
- ◆ Disposal of 70% of Aveng Steeledale concluded





Key:



Buildings
Commercial and civil



Roads & Rail
Construction, tunnels and bridges



Oil & Gas
Plants and pipelines



Mining
Surface and underground



Marine
Ports and sea infrastructure



Power
Fossil fuel, renewables and hydroelectric transmissions



Water
Reticulation, effluent and dams



Process & Industrial
Buildings and plant



Performance

Manufacturing and Processing continued

Aveng Manufacturing manufactures and supplies construction 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 Steel supplies a wide range of products to the steel, construction and automotive industries from its steel yards, processing centres and manufacturing plants.

Financial highlights

Rm	2016	2015	Variance (%)
Gross revenue	8 794	9 928	(11)
Gross earnings	505	685	(26)
Net operating earnings	(70)	54	>(100)
Operating free cash flow	275	12	>100
Capital expenditure	139	180	(23)
Aveng Manufacturing	126	156	(19)
Aveng Steel	13	24	(46)
Total assets	5 470	5 706	(4)
Total liabilities	2 162	1 936	12

The Manufacturing and Processing operating segment comprises Aveng Manufacturing (Aveng Automation & Control Solutions (ACS), Aveng Dynamic Fluid Control (DFC), Aveng Duraset, Aveng Infraset and Aveng Rail), and Aveng Steel (Aveng Trident Steel and Aveng Steeledale). Facades and Aveng Steel Fabrication were closed during the year due to unsustainably low levels of work. Subsequent to the year-end, Aveng announced the disposal of 70% of Aveng Steeledale.

2016 performance

Operational performance

The business units of **Aveng Manufacturing** were all impacted by ongoing weakness in mining and Oil and Gas markets due to low commodity prices and delays in the implementation of anticipated rail projects.

Major Oil and Gas-related projects undertaken by **Aveng ACS** for Sasol, Engen, PetroSA and Transnet were postponed during the second half of the financial year. However, this impact on revenue was offset by the business unit's diversification into power, water and mining sectors and its launch of comprehensive installation services in 2015 which contributed to a 4% increase in revenue

to R441 million (2015: R425 million). ACS continued to supply products and solutions to Mozambique and the Democratic Republic of the Congo and it refurbished control and instrumentation systems at Eskom's Arnot and Kendal power stations in South Africa.

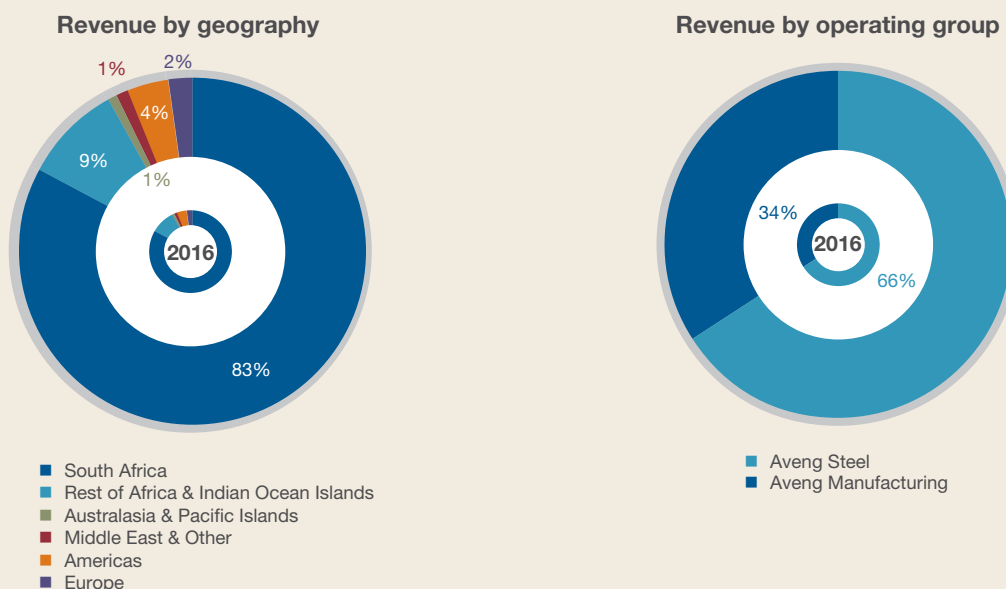
The revenue of **Aveng DFC** declined by 3% to R469 million (2015: R485 million) as growth in its US and Australian markets partially offset lower demand in the domestic market for mining and water products. The profit margins of ACS and DFC were impacted by the loss of higher margin work.

Aveng Duraset also struggled to increase its ratio of higher margin products in a highly competitive, commoditised domestic market, while efforts to strengthen its presence in markets in the rest of Africa were affected by indigenisation requirements to trade through local partners. These factors were reflected in a 9% decline in revenue to R487 million (2015: R535 million) and break-even in operating profits.

The revenue of **Aveng Infraset** declined by 29% to R851 million (2015: R1,2 billion), while net operating earnings declined by 67% to R32 million (2015: R96 million).

Infraset completed the contract to supply railway sleepers to the Nacala project in Mozambique but a contract to supply pipes and culverts to CETA was delayed due to non-payment, while a major order of railway sleepers in Zambia was postponed. In South Africa, the contract to supply sleepers to the Majuba Rail Link project was completed at year-end and Transnet suspended railway maintenance work. Demand for construction materials in the domestic market remained strong and Infraset operated at full capacity, but this was not sufficient to compensate for work lost in the rail sector. There will be an investment in additional capacity in 2017.

Aveng Rail reported a 14% increase in revenue to R770 million (2015: R676 million) largely due to rail construction work for the Rosmead and Black Rock projects which were completed at year-end. The business unit was heavily impacted by an unexpected 60% reduction in rail maintenance work it had secured with Transnet and delayed commencement of its Majuba contract which will continue in the 2017 financial year. Net operating earnings decreased by 31% to R40 million (2015: R58 million) as construction-related revenue streams achieved lower profit margins. Aveng Rail continues to secure work in Mozambique



Aveng Manufacturing remained resilient as its diversification into other geographic and sectoral markets mitigated the impact of weakness in its core markets, while ongoing efficiency improvements supported its financial performance.



and is geared for a resurgence of rail construction and maintenance work when mining-related projects resume.

Aveng Steel reported a decline in revenue as domestic mills reduced steel prices between 20% and 30% in line with international trends during the first half of the year and the operating group traded out higher priced stock. Sales volumes were impacted by low levels of infrastructure investment and record levels of cheap imports that flooded the domestic market.

Market conditions improved in the second half of the year as rising international steel prices, a weaker Rand / Dollar exchange rate and 10% customs duties applied progressively to all 10 steel products produced in South Africa, created the opportunity for mills to increase prices between February and June 2016. Sales volumes increased marginally as a result of restocking throughout the steel value chain, but project opportunity remained subdued and the anticipated award of renewable energy projects was postponed to 2017.

Price increases and optimal stockholding contributed to an improvement in profit margins in the final quarter of the year and will continue to have a positive effect in the new financial year.

Improved market conditions and continuous efficiency improvements contributed to a 7% decline in net operating losses. Aveng Steel was a significant contributor to positive cash flow throughout the year. This was achieved by a reduction in working capital, most notably reduced inventory.

Performance

Manufacturing and Processing continued

Safety, health and environment performance

Aveng Manufacturing achieved a LTIFR of 0,47 (2015: 0,40) and an improved AIFR of 2,91 (2015: 3,67).

Aveng Steel achieved an improvement in its LTIFR to 0,51 (2015: 0,75) but AIFR deteriorated to 9,89 (2015: 8,68). Although the operating group recorded a higher level of incidents during the first half of the financial year as new employees commenced work at its Roodekop facility, adoption of training and safety interventions restored sound safety practices at the facility. Overall, the continuous improvement processes, training of supervisors and visible felt leadership contributed to the improved performance in LTIFR.

A number of manufacturing facilities commenced OHSAS 18001 surveillance audits in preparation for ISO 14001 accreditation.

Two major environmental incidents were recorded in 2016. Both were hydraulic oil spillages at the Black Rock and Rosmead rail construction projects of Aveng Rail. They were defined by the National Environmental Management: Waste Act, section 20 of the National Water Act and section 30 of the National Environmental Management Act, and reported to regulatory authorities by the clients.

Aveng Manufacturing reached an agreement with the Gauteng Department of Agriculture and Rural Development on remedial work which is being implemented at its Brakpan stacking facility.

Human capital performance

Aveng Manufacturing appointed Xoliswa Njokweni-Mlotywa as managing director of Aveng Rail with effect from 1 July 2016. The leadership team of Aveng Steel was strengthened by the appointment of Yassien Kuvido as financial director. New appointments at its Roodekop facility contributed to an improvement in productivity at the facility.

Various initiatives have been implemented to create a sustainable pool of skills, particularly in critical and key leadership positions. Through the talent management processes, Aveng DFC identified and appointed three candidates to key positions in finance, planning and sales. Similarly, the recruitment of a new MD for Aveng Rail demonstrates that planned and targeted talent attraction yields results.

An internship programme offered by Aveng Manufacturing is creating a pool of critical skills for Aveng and the industries it serves. During 2016, Aveng Manufacturing took on 42 interns in various technical disciplines, 16 of whom were employed by its business units, while seven were employed externally. Aveng Manufacturing business units trained seven people with disabilities in business services and administration. Since 2015, Aveng Rail has provided track master and track welder programmes to address the skills gap in mechanised track maintenance. Four female track masters qualified in 2016 and four Ermelo community members were included in the programme. Aveng ACS is now an accredited workplace that can provide practical training for apprentices in control and instrumentation. Aveng Rail offers four accredited technical operator training programmes.

The headcount of Aveng Manufacturing declined by 8% to 2 452 at 30 June 2016 and that of Aveng Steel declined by 21% to 1 299. These headcount reductions are due to optimisation measures undertaken during the year.

Looking ahead

Despite the challenging environment, the outlook for Aveng Manufacturing remains encouraging.

Transport infrastructure is still a key growth market, with opportunities in maintenance, upgrade and new rail infrastructure in South Africa and neighbouring countries. With its

manufacturing capacity in Zambia, Mozambique and South Africa, Aveng Infraset is well positioned to pursue opportunities to supply transport infrastructure in sub-Saharan Africa. Aveng Rail continues to secure work in Mozambique and has intensified its efforts to win international contracts in partnership with McConnell Dowell. Demand for residential and commercial building products is expected to remain strong and will be enhanced by innovative new products launched by Infraset in 2016.

Although investment in mining and related infrastructure in South Africa is expected to remain subdued, this is mitigated by mining opportunities in the rest of Africa, Russia and South America which could drive demand for many of the operating group's product lines. Aveng DFC continues to pursue growth in its existing water valve facilities in the Americas, Europe and Australia and will leverage its partnerships to increase its market penetration with new products. Aveng ACS will continue to pursue growth in the mining, water and power sectors and is strengthening its footprint in southern African markets.

Selective investment will be made to improve the capacity and efficiency of these operations in order to facilitate growth.

Aveng Steel has completed a major restructuring and will continue to focus on strengthening its financial position as market conditions improve. A key area of focus will be anticipated demand for renewable energy projects in the new financial year. Local vehicle manufacturing is currently under pressure but remains a growth prospect in the medium to longer term.

These opportunities, together with the benefits of ongoing restructuring and optimisation in line with market demand, are expected to contribute to an improved performance in 2017.



Aveng Manufacturing Duraset Plasma cutting machine

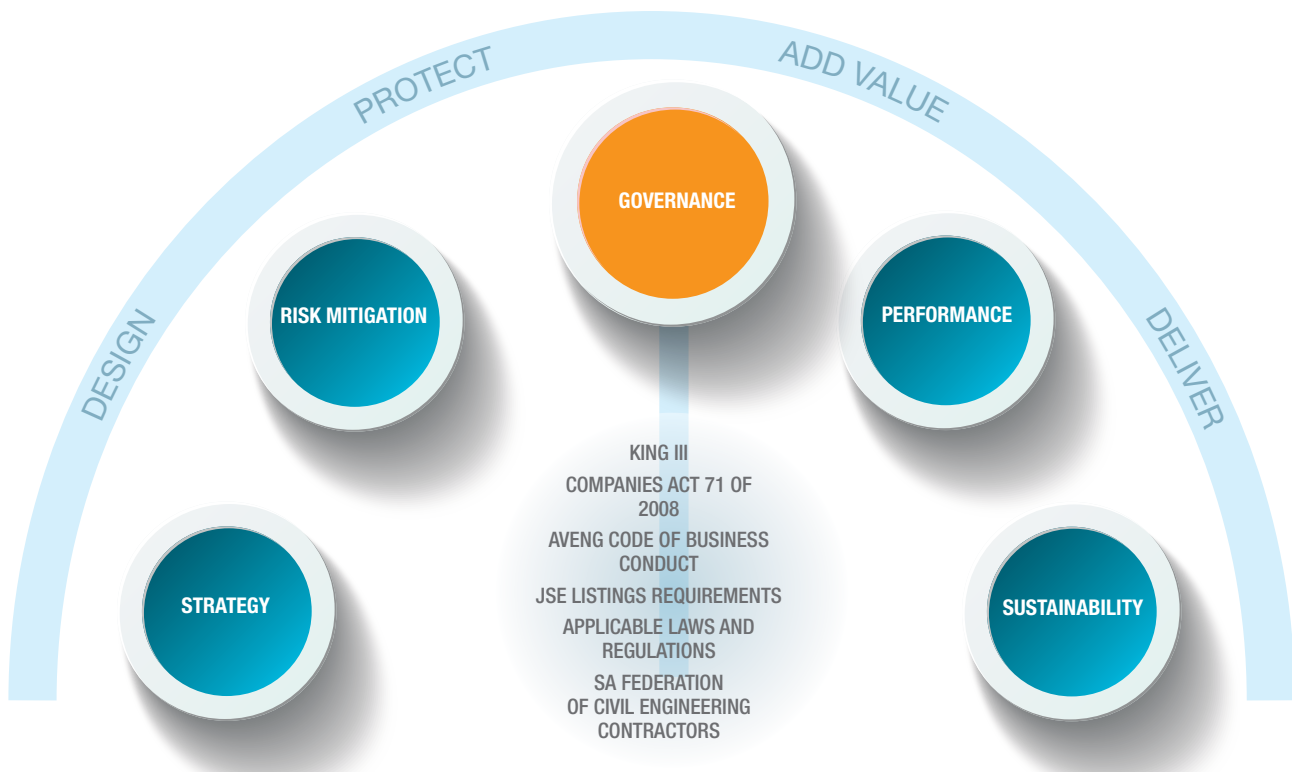
Abridged corporate governance

Governance at Aveng

Good corporate governance aligns Aveng’s strategy and risk management with its performance to ensure that the Group is able to be sustainable in the long term and add value to its stakeholders.

The Board unanimously embraces the principles of the King Code of Governance (King III) and benchmarks its compliance against this framework. Further, the Board subscribes to full compliance with applicable laws and regulations in all jurisdictions in which Aveng operates.

Aveng subscribes to the highest levels of professionalism and integrity. The Board and the Group’s individual employees are committed to the Aveng Code of Business Conduct. This prescribes our approach to ethical business practices and our obligations to customers, shareholders, employees, representatives, suppliers and the authorities. Management is tasked to ensure compliance with the code, and all employees and representatives are expected to act in a manner that inspires the trust and confidence of the general public. Commitment to the Code of Business Conduct is embedded at board meetings.



Strategy: Cognisant of the share price performance and market capitalisation of the Group, the Board commenced a strategic review in December 2015 to introduce measures to unlock shareholder value.

Performance: Aveng’s *recover and stabilise* strategic phase is largely complete. During this phase, Aveng Grinaker-LTA’s performance has been strengthened, McConnell Dowell has been restructured and other operating groups have been optimised in preparation for profitable growth.

Risk mitigation: Aveng’s Code of Business Conduct ensures every employee, officer and director throughout the Group complies with all applicable laws. Aveng’s “compliance universe” was defined through a risk management process. Controls include the three lines of defence, a combined assurance plan and Aveng’s internal control forum.

Sustainability: Aveng’s executive management has been stable for the past two years and is shifting the Company’s focus from its operational turnaround phase to a more externally directed and profitable growth phase.

Board responsibility

The Board provides strategic leadership to the Group, independently reviewing the business models of the operating groups and promoting accelerated execution of the approved strategy.

Board responsibility: The Aveng Board makes itself collectively responsible for the success of the Company. Its aim is to provide stakeholders with confidence that the Group is being managed ethically, with robust operations that function within prudent risk parameters. The Board is satisfied that, for the year under review, it has complied with the terms of its charter.

The Board of directors of Aveng Limited is the Group's highest decision-making body. Day-to-day responsibilities for corporate governance are overseen by management who report regularly to the Board and board committees. The chairman of the Board and the chairmen of the board committees play an active role in all corporate governance matters and regularly interact with the company secretary, executive directors and management.

The Board has a formal charter which, among other things, sets out its roles and responsibilities in areas such as ethical

leadership, strategy, financial management, risk management, compliance, sustainability and governance in general. The charter addresses the duties of individual directors as prescribed in common law and the provisions of the Companies Act. The charter addresses important matters such as the separate roles of the chairman and the chief executive officer, the focus on stakeholder relationships, the implementation of a proper delegation of authority and the composition and evaluation of the Board and its various committees.

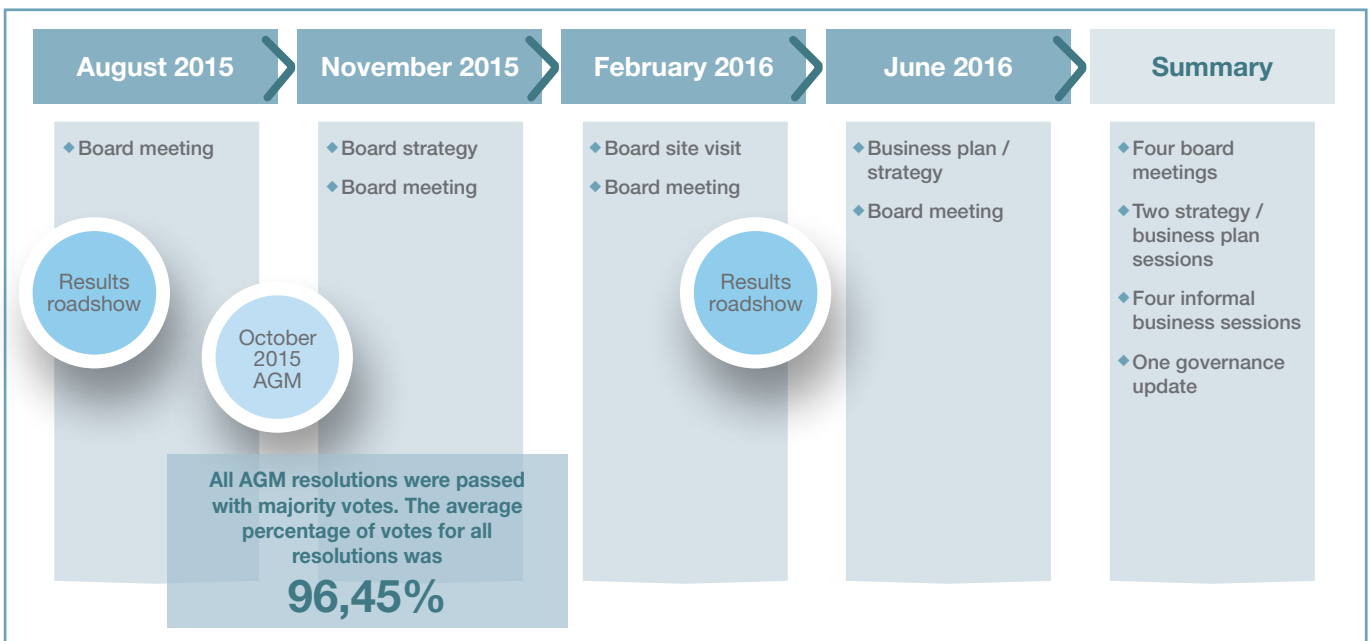
Aveng Board and attendance

Five meetings

- MI Seedat (chair) (5/5)
- AWB Band (5/5)
- EK Diack (5/5)
- PJ Erasmus (5/5)
- SJ Flanagan (4/4)
- MA Hermanus (5/5)
- PA Hourquebie (5/5)
- MJ Kilbride (5/5)
- AH Macartney (5/5)
- JJA Mashaba (5/5)
- TJ Mokgosi-Mwantembe (5/5)
- KW Mzondeki (5/5)
- HJ Verster (5/5)
- PK Ward (5/5)

Board meetings

The Board convenes each quarter to attend to the requirements of the board work plan which stipulates regular material reviews and approvals for consideration. Additional meetings are scheduled to consider the Group's strategy and operational business plans.



Abridged corporate governance continued

Board insight

A clear understanding of the diverse industries and specific challenges of each business unit is necessary for the Board to provide insightful direction to the Group. The following initiatives supported communication between the Board and the Group's operating divisions.

2016: Key governance initiatives in support of operations

Board site visits are done twice a year. In February, the five Sandton building sites were visited. Management had the opportunity to present their aspirations to the Board. At the board meetings that followed, directors shared their views on the site visits and some of the lessons learnt.

Informal business update sessions are held in the months between board meetings to ensure board members are kept abreast of current issues.

Restructured executive committee meetings now report on top-line performance of margins and the order book – taking conversations from an operational perspective to forward looking growth and an external focus.

Board and operating group meetings were streamlined to rationalise the flow of discussions and avoid duplication of reporting.

Aveng tender advisory committee was formed to strengthen the tender process. A complete tender review is performed weekly by management, who then recommend projects to go forward to the tender risk committee, streamlining the latter to improve time management and focus on crucial issues.

Key issue sessions: At the chairman's request (whenever concern is raised), board members are invited to sessions for extended discussion on key topics. Most recently human resources presented on B-BBEE, transformation and succession planning.

The **restructured risk committee agenda** ensures that report-backs are cognisant of material matters. The committee is more focused on high-level material matters.

Educational updates are a standing agenda item for board committees in order to develop directors and present updates on legislation or lessons learnt on projects. The full Board is invited to attend these presentations.

Board refreshment

The Board is regularly assessed for its qualifications, diversity, independence, and experience, and its ability to create value in the short, medium and long term.

The Board started the year with a **new chairman; Mahomed Seedat** took the seat on 1 July 2015. He had been an independent non-executive director of Aveng since July 2012 with extensive industry knowledge of mining, safety, health and environment, transformation, labour relations, business leadership and governance.

Two retirements were expected in the 2016 financial year, so the Board scrutinised its profile, cross-referencing the experience of

its members to industry-related areas critical to group operations. No material gaps were evident, but the Board's refreshment and continuity programme identified the requirement for a person with advanced experience in the fields of construction and engineering.

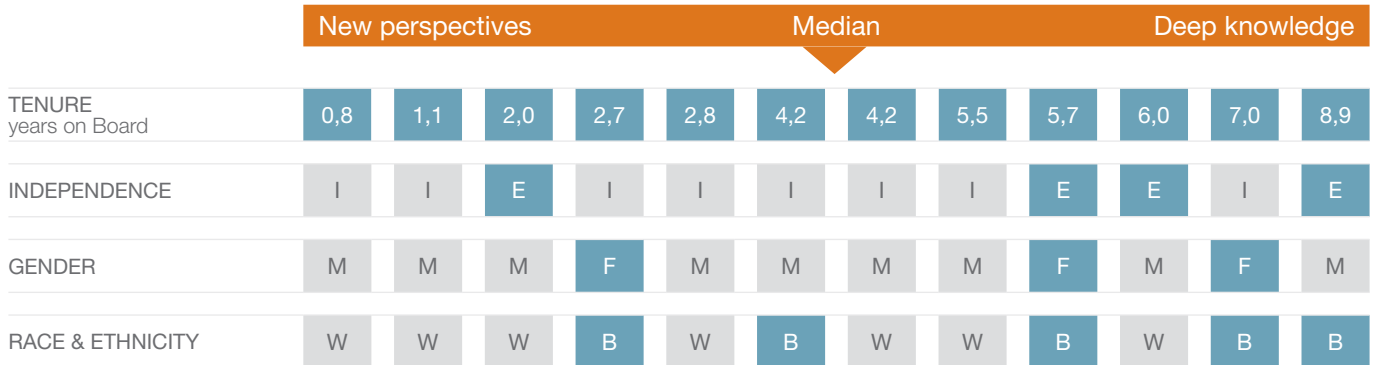
On 5 August 2015, **Philip Hourquebie joined the Board** as a non-executive director, bringing a weight of finance and governance leadership. He is a chartered accountant with extensive operational experience and was previously a member of the King III Committee on Boards and Directors. On 17 August 2015, **Dave Robinson retired** from the executive management and on 31 October 2015 Mr Robinson retired from the Aveng Board. The Board expressed thanks to Mr Robinson for 10 years of service.

On 1 November 2015, **Sean Flanagan was appointed** as non-executive director bringing 30 years of industry-specific experience derived from contract and claims negotiation, project engineering, project and construction management, setting company strategies, leading mergers and acquisitions, and troubleshooting in underperforming projects and businesses. On 30 June 2016, **Peter Ward retired** after nine years on the Board, serving on various committees. The Board thanked Mr Ward and wished him well in his retirement.

On 19 August 2016, **Angus Band retired** after 10 years on the Board, having previously served as chairman. The Board thanked Mr Band and wished him well.

Board tenure

Tenure of directors is considered to ensure that the Board is regularly refreshed while maintaining a stable leadership and corporate memory. In the following diagram the tenure of each board member was overlaid against their respective independence, gender, race & ethnicity. It is pleasing to report that a mix of fresh ideas and corporate memory is shown across all measurements.



- ◆ The Board is a balanced mix of a deep knowledge of Aveng and new perspectives.
- ◆ Term limit: Directors are eligible for nine years whereafter rigorous review of independence takes place.
- ◆ All non-executive directors are independent.
- ◆ 75% of directors are independent.
- ◆ 25% of directors are women.
- ◆ 42% of directors are black.

Abridged corporate governance continued

Frameworks for governance

A summary of the initiatives of the board committees follows.

Key issues	Governance structure / process / procedure	Metrics and actions	Responsible committee or entity
Stakeholder engagement and relationships			
Stakeholder engagement	Stakeholder engagement structure	Stakeholder engagement is undertaken with key stakeholders and driven by operating group managing directors and group executive directors.	Social, ethics and transformation committee / management
	Roadshows	Management meets with shareholders and analysts to provide feedback on the steps taken to improve risk management and financial performance.	Executive committee
	CEO roundtable	As part of the strategy to engage leadership across the Group, a CEO roundtable was introduced for the CEO to engage informally with senior managers to discuss current issues in Aveng and solicit their input and commitment to resolving these issues.	
Employment equity	Revised codes of good practice and the construction charter	The Group has a robust plan to ensure that Aveng remains competitive in terms of its empowerment score.	Social, ethics and transformation committee
	B-BBEE strategic plans	Operating group managing directors present their three-year B-BBEE strategic plans to the social, ethics and transformation committee. Employment equity targets are integrated into the performance contracts of line management.	Executive committee
	Transformation roadshows	Transformation roadshows are held across the Group with suppliers and line management to enlighten, empower and enable them on B-BBEE strategic imperatives.	
	Fronting interventions	Training and awareness sessions provide greater awareness of fronting. Group-wide interventions and training on enterprise and supplier development have been completed, centralising preferential procurement reporting and monitoring within centre-led procurement.	Management
Public safety	Safety, health and environment dashboard	A graphic dashboard represents progress made with initiatives and key indicator trends.	Safety, health and environmental committee
Risk and opportunities			
Effective identification and assessment of material issues	Risk register	Measures 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 it. Actions and progress are proposed for the relevant operating group to provide a clearer overview of the group-wide risk landscape.	
Problematic contracts	Project reviews	Project and risk reviews undertaken with feedback and actions developed in consultation with operating groups.	Risk committee
	Project assurance framework	A detailed framework defining the minimum governance requirements from a risk management perspective. Early warning protocols.	

Key issues	Governance structure / process / procedure	Metrics and actions	Responsible committee or entity
Opportunity management	Aveng tender advisory committee	Detailed reviews of tender opportunities performed by management before presentation to tender risk committee.	Management
	Tender risk assessment and modelling (risk tolerance)	To determine the maximum project size that the Group can tolerate. This is not only a financial metric, but also considers the skills base and risk profile of the project.	Tender risk committee Investment committee
Strategic perspective	Assessment of macro-economic and industry trends	Business units are analysed to assess their relative attractiveness and competitiveness.	Board / Executive committee
Strategy and resource allocation			
	2016 strategic workshop	Assessment of operating groups' capacity, competence and culture to achieve and sustain a turnaround, and their ability to win and grow business in the current environment.	Board / Executive committee
Performance and outlook			
	Strategic workshops	A platform to enable the operating groups to implement their strategic objectives in support of the Group's strategic goals. It aims to establish a high-performance culture throughout the Group, aligned to the Aveng DNA.	Board / Executive committees of operating groups
Remuneration			
Remuneration policy	Remuneration modelling exercises	Market benchmark, salary surveys. Review of incentives.	Remuneration and nomination committee
Succession plans	Annual succession review	Review quality of people, identification of succession gaps and creation of growth path for talent pipeline.	Remuneration and nomination committee
	Individual development plans (IDPs)	Good progress made on IDPs which are being monitored quarterly.	Remuneration and nomination committee
Industrial relations climate in South Africa	Employee and union engagement	South African operations are exposed to risks associated with the changes in legislation governing the way temporary employees and labour brokers are managed. Engagement with employees and organised labour aims to foster labour stability across the organisation.	Remuneration and nomination committee
Governance			
Scope	Annual work plans for all committees	Set objectives for the year.	All board committees
	Meeting calendar	The meeting calendar is adapted to address material matters. Informal business update sessions keep the Board abreast of current issues before they escalate into critical situations.	Board and board committees

Abridged corporate governance continued

Key issues	Governance structure / process / procedure	Metrics and actions	Responsible committee or entity
Governance			
Compliance	Regulatory compliance framework	Ensure effective management of the Group's compliance with applicable laws and consideration of adherence to non-binding rules, codes and standards.	Audit committee Social, ethics and transformation committee Executive committee
	Environmental legal audits	Ensure that sites comply with safety regulatory requirements.	Safety, health and environmental committee
	Operating group governance framework	The governance framework is agreed between the Group and its operating group boards. This is done twice a year at the interim stage and year-end when the delegation of authority is tabled for adoption and approval.	Board, operating group boards and company secretary
	Delegation of authority framework	Includes established benchmarks and performance indicators to hold management accountable for decisions and actions.	Board
Assessments	Annual assessment of the Board and committees	Assessments are done annually, alternatively by internal questionnaire interviews and external evaluations.	Chairman of Board and committees and company secretary

Key governance achievements, challenges and continuing focus areas

Topic	Activities / discussion	Actions arising	Continued focus
Strategy	One-day offsite meeting in November 2015 to discuss strategy and the Aveng business model. Each operating group presented an updated plan to the Board for review, input and approval. The Board assessed the Group's capacity, competence and culture with a view to completing the turnaround and sustaining it in difficult environments. The strategy must be adapted to the changed requirements for winning and growing business.	Management undertook a process to align operating group strategies and develop a clear articulation of the strategy to internal and external stakeholders.	On 27 November 2015, the Board confirmed a business model with a strong corporate centre providing guidance, direction and some shared services.
	The Board considered the disparity between market valuation and the intrinsic value of the business, together with upside potential from performance improvements.	A strategic review was undertaken. Overhead structures were reassessed to remove waste / excess and ensure best practice is implemented across the Group.	Continuous measurement and review by the Board and executive committee.
	Shift from <i>recover and stabilise</i> phase to <i>position for profitable growth</i> by building a resilient company.	Liquidity and risk have been managed closely while the Group's structure, processes and people are strengthened. Legacy issues continue to be in the spotlight.	Management reviews legacy issues and action plans each month to keep the pressure on risk management and growth promotion.
	Accelerate value creation and <i>position for profitable growth</i> .	<ul style="list-style-type: none"> ◆ Realisation of Aveng Capital Partners' infrastructure assets ◆ Divestment from Aveng Steel in response to market conditions ◆ Assessing various transformational alternatives for Aveng Grinaker-LTA 	To take advantage of cross-synergies, the strategies of business units and operating groups are reassessed on a rotational basis each month at the executive committee meeting.

Topic	Activities / discussion	Actions arising	Continued focus
Board evaluation	<p>In July 2015, the company secretary conducted a board assessment via questionnaires distributed to board and committee members. In July 2016, the chairman conducted individual interviews with each board member.</p> <p>Responses indicate that the Board is satisfied with its ability to discharge its mandate in an open and independent manner. The governance process supports their mandate and improvement was noted in the quality of board papers leading to better informed decisions.</p>	Risk management has significantly improved over the past year and work continues to ensure it is more forward looking. The ICT platform requires improvement.	<p>Implementation of IT governance has started, and while this is monitored by the audit committee, more detailed feedback and involvement of the Board may be necessary.</p> <p>Board members requested an improvement in stakeholder communication.</p>
Leadership and employees	McConnell Dowell executive committee restructured and strengthened with appointment of four new executives.	Leadership conference held to align management with the new operating model.	Stabilise the organisation and position for profitable growth.
Reward and retention of key employees	Long term incentive plan (LTIP) scheme was approved at the AGM following a rigorous review by management and the remuneration committee.	As Aveng has been in a closed, cautionary or prohibited period since the approval of the LTIP, no awards were made to any participants for the 2015 financial year. To mitigate retention threats, cash-based retention awards were made to some senior executives in 2016.	Once Aveng enters into an open period, LTIP share-based awards will be made for the 2015 / 2016 financial year.



Aveng executive team site visit

Abridged corporate governance continued

Principal strategic risks

Aveng continuously reviews and improves risk management processes and has adopted the concept of “three lines of defence” to strengthen risk management and ensure adequate assurance levels. The three lines of defence jointly form the combined risk management assurance model for Aveng.

Additional information on the combined risk management assurance model is available on page 19.

Assurance

The ultimate aim of governance is assurance: comfort that the Group complies with relevant legislation and good practice (compliance); confidence that there are no material control breakdowns (internal and external assurance); assurance that risks are managed (risk management); and a positive assertion that the organisation is operating with integrity and fairness (ethics management). At Aveng this assurance is further contextualised against the Group's material matters to ensure that a responsive approach is adopted.

Aveng's combined risk management assurance model is being embedded by the group commercial, internal audit and external audit functions, to eliminate duplication of effort and to ensure that there are no gaps in the coverage of projects and that control mechanisms in the operating groups are adequate.

The three lines of defence model is embedded in the Aveng operating model. Controls consciousness has improved significantly. An internal control forum is held regularly, chaired by the group CFO and attended by internal auditors, external auditors, and finance directors of the operating groups. Sign-off by all operating groups indicates that there is an

acceptance of critical controls that must work and critical control workshops are held quarterly at the operating groups to help identify, document and evaluate these critical controls.

Board's responsibility

Based on the recommendation of the audit committee, the Board considers and confirms the going-concern status of the Group in preparation of the financial statements at both the interim reporting period and at year-end. The assumptions underlying the going-concern statement include profitability, budgets, forecasts, cash flow and liquidity.

The Board monitors the preparation, integrity and reliability of the financial statements, accounting policies and the information contained in the integrated report. A robust, integrated process assists the Board to identify, evaluate and manage significant risks posed to the Group. While management is responsible for this process, it is independently monitored by the audit and risk committees.

Statement of going concern: *The directors have reviewed the Group's cash flow forecast for the year ending 30 June 2017. The cash and liquidity assessment has revealed that the business has sufficient liquidity. The directors are satisfied that the Group has access to adequate resources to continue as a going concern and accordingly the audited consolidated financial statements are prepared on a going-concern basis.*

Risk management

The risk committee and audit committee continuously review the Group's risk management structures, systems, processes and procedures. Management is accountable to the Board for integrating risk management into the day-to-day activities of the Group.

The internal audit function is overseen by the audit committee and guided by the internal audit charter, which is approved annually by the audit committee. Internal audit has the expertise to carry out independent detailed project reviews should significant concerns arise at board committee level.

Statement on risk controls: *The risk and audit committee, on behalf of the Board, confirms that there is no reason to believe that there were any material internal control or risk management shortcomings during this financial year that have not been addressed or are in the process of being addressed.*

Ethics management

Ethics is a practical issue and a matter of survival in business. Clients, shareholders and stakeholders must know that they can depend on the character and integrity of the Company. Aveng's Board considers sound corporate governance structures and processes pivotal to delivering sustainable growth in the interest of all stakeholders.

Fair play and corporate responsibility have to be positive and continuous, particularly in the diverse industries in which Aveng operates. Anti-competitive behaviour, bribery and corruption are risks that are managed on an ongoing basis, with the Board embedding a rigorous accountability culture and comprehensive processes. Positive communication messages address reputational issues and bolster growth opportunities.

Before any bid is submitted, declarations of no anti-competitive actions or transgressions of the Aveng code of ethics are made to the tender risk committee, with a similar process for all smaller bids approved at operating group level.

At each board meeting, directors affirm their commitment to the Aveng Code of Business Conduct. Top leadership takes this commitment seriously and directly addresses any unethical behaviour in operating activities. Further, integrity and character are key factors in every hiring and partnering decision. All prospective executive employees are required to sign a declaration that they have not participated in anti-competitive behaviour before a formal offer will be made to them. On the whole, a zero-tolerance policy is employed within the Group.

Statement of commitment: *The Board is committed to providing effective and ethical leadership characterised by accountability, fairness and transparency. The Board accepts its responsibility for ensuring that management nurtures a culture of ethical conduct and establishes the correct tone at the top in respect of the Group's DNA and values.*

Compliance

Compliance reports are presented to the audit and social, ethics and transformation committees quarterly and to the Aveng Board annually. The Board monitors compliance with:

- ◆ **JSE Limited Listings Requirements:** Aveng, as a JSE publicly listed company is subject to, and remains compliant with, the JSE Listings Requirements in line with the advice of JP Morgan, Aveng's sponsor.
- ◆ **The King Report on Corporate Governance for South Africa, 2009 (King III):** As part of its philosophy on leadership, sustainability and corporate citizenship, Aveng applies the recommendations of King III and continues to identify areas where applications can be enhanced in the best interest of the company.
- ◆ **Companies Act 71 of 2008 (Companies Act):** The Companies Act aims to promote good governance and transparency in South African businesses. Aveng's social, ethics and transformation committee ensures compliance with all relevant governance provisions of the Act.
- ◆ **Other legislation:** A board-approved compliance framework is implemented by Aveng and its operating groups in line with an annual compliance plan. Key

milestones are monitored by the audit and social, ethics and transformation committees for programme effectiveness.

- ◆ **SAFCEC:** Aveng is a member of the South African Federation of Civil Engineering Contractors which regulates the relationship between employers, employees and trade unions.

Statement of compliance: *Aveng and its operating groups apply the governance principles contained in King III and continue to entrench and strengthen recommended practices in their governance structures, systems, processes and procedures.*

Abridged corporate governance continued

Board committees and attendance

The Board applies responsible governance in managing the business within the approved risk appetite through various board committees.

Audit committee	Remuneration and nomination committee	Social ethics and transformation committee	
Five meetings	Six meetings	Four meetings	
Independent non-executive directors (* By invitation) (** Standing invitation)			
EK Diack (chair) (5/5) PA Hourquebie ² (5/5) KW Mzondeki (5/5) PK Ward ¹ (5/5) MI Seedat** (5/5)	TM Mokgosi-Mwantembe (chair) (6/6) AWB Band (6/6) MI Seedat (6/6)	MI Seedat (chair) (4/4) AWB Band (4/4) TM Mokgosi-Mwantembe (4/4) KW Mzondeki (4/4)	
Management and other (* By invitation)			
<ul style="list-style-type: none"> ◆ Chairman of the Board ◆ Chief executive officer ◆ Group CFO ◆ Head of internal audit ◆ External audit representative 	<ul style="list-style-type: none"> ◆ Chief executive officer ◆ Group executive director ◆ Group remuneration and rewards executive* 	<ul style="list-style-type: none"> ◆ Chief executive officer ◆ Group executive director ◆ Group transformation executive* 	
Responsibilities			
<ul style="list-style-type: none"> ◆ Assess financial sustainability ◆ Financial and integrated reporting ◆ Internal controls ◆ Combined risk management assurance ◆ Oversee IT governance 	<ul style="list-style-type: none"> ◆ Ensure optimal remuneration structures to attract, retain and motivate top employees to enable and support the business strategy ◆ Identify and source appropriately skilled directors who individually and collectively add value to the Board 	<ul style="list-style-type: none"> ◆ Oversee transformation strategies, plans and processes ◆ Act as social and ethics committee for Aveng Limited and relevant subsidiary companies as required in terms of the Companies Act 71 of 2008 	
¹ Retired 31 October 2015 (DG Robinson); 30 June 2016 (PK Ward) and 19 August 2016 (AWB Band) ² Appointed to the Board on 5 August 2015 (PH Hourquebie) and 1 November 2015 (SJ Flanagan) * Senior management			
Statement of compliance			
<i>The committee is satisfied that it has complied with its regulatory and other responsibilities under the charter, as well as its legal responsibilities in terms of the Companies Act 71 of 2008, as amended.</i>	<i>The committee is satisfied that it has complied with its responsibilities under the charter.</i>	<i>The committee is satisfied that it has complied with its responsibilities under the charter.</i>	
Audit committee statement on the financial director <i>In accordance with the JSE Listings Requirements, the audit committee is required to consider the appropriateness of the expertise and experience of the financial director of the Company. For the year under review, the committee is satisfied that Adrian Macartney possesses the appropriate expertise and experience to fulfil his responsibilities in that position.</i>		Board statement <i>Aveng has discharged its responsibility in respect of section 43 of the Companies Act pertaining to the social and ethics requirements, namely, that in the period 1 July 2015 to 30 June 2016, Aveng Corporate and the operating groups supported and respected the protection of internationally proclaimed human rights; they upheld freedom of association and the right to collective bargaining. To our knowledge there were no incidents of discrimination and due to measures in place there were no issues pertaining to child and forced labour. There were no significant regulatory incidents pertaining to the above, which could have adversely affected the operating groups financially, their reputation, regulatory or legal standing, or delayed or stopped any projects.</i>	
Audit committee statement on the company secretary <i>In accordance with the JSE Listings Requirements, the audit committee is required to consider the appropriateness of the expertise and experience of the company secretary. For the year under review, the committee is satisfied that Michelle Nana possesses the appropriate expertise and experience to fulfil her responsibilities in that position.</i>		Ethics management <i>Statement of commitment: The Board is committed to providing effective and ethical leadership characterised by responsibility, accountability, fairness and transparency. The Board accepts its responsibility for ensuring that management nurtures a culture of ethical conduct and establishes the correct tone at the top in respect of the Group's values.</i>	

Board and committee attendance remained good.

Independent non-executive directors meet independently of executive directors after each board meeting.

Safety, health and environmental committee	Investment committee	Risk committee	Tender risk committee
Four meetings	Seven meetings	Four meetings	Weekly
MA Hermanus (chair) (4/4) MJ Kilbride (4/4) MI Seedat (4/4) AWB Band** (4/4)	EK Diack (chair) (7/7) AWB Band (7/7) PA Hourquebie ² (7/7) MJ Kilbride (7/7) MI Seedat (7/7) SJ Flanagan* (2/2)	PJ Erasmus (chair) (4/4) AWB Band (4/4) EK Diack (3/4) MJ Kilbride (4/4) MI Seedat (4/4) KW Mzondeki (1/1) PK Ward (retired) (4/4)	PJ Erasmus AWB Band EK Diack SJ Flanagan MI Seedat
<ul style="list-style-type: none"> ◆ Chief executive officer ◆ Group executive director ◆ Group safety, health and environment executive* 	<ul style="list-style-type: none"> ◆ Chief executive officer ◆ Group CFO ◆ Group: investment and optimisation executive* 	<ul style="list-style-type: none"> ◆ Chief executive officer ◆ Group CFO ◆ Group commercial executive* 	<ul style="list-style-type: none"> ◆ Chief executive officer (chair) ◆ Group CFO ◆ Group commercial executive*
Ensure that Aveng's priority of "Home without Harm, Everyone Everyday" is upheld	Consider major investment and divestment opportunities in terms of the Board-approved delegation of authority and strategy and where appropriate make recommendations to the Board	Ensure that there is an effective risk management process that identifies and monitors the management of key risks	Governance of tender risk management through a formal process and system
<i>The committee is satisfied that it has complied with its responsibilities under the charter.</i>	<i>The committee is satisfied that it has effectively fulfilled its roles and duties during the year under review and has complied with the provisions of its charter, which was approved by the Board.</i>	<i>The committee is satisfied that during the year under review it has complied with its responsibilities under the charter, as well as its legal responsibilities in terms of the Companies Act 71 of 2008, as amended. The risk committee oversees the implementation of all three lines of defence and satisfies itself through the activities of the tender risk committee that adequate business processes are followed.</i>	
Board statement The Board acknowledges its accountability for safety, health and environmental management and upholds the philosophy of "Home Without Harm Everyone Everyday", which applies to all employees and subcontractors of the Aveng Group.			

Remuneration report

Part 1: Overview

Statement from the chairman of the remuneration and nomination committee

Dear Stakeholder

The volatile industries in which Aveng operates continue to influence the way in which we remunerate and incentivise our employees. Tough times have led to a significantly tighter link between business and individual performance. Aveng has found itself thinking out of the box and discovering smarter ways to address remuneration, benefits and incentives for our employees, through this difficult and uncertain period.

Our talented people are fundamental to the realisation of the Group's strategy and their retention is critical to maintaining the turnaround momentum currently underway.

Due to various corporate transactions, the Company has been in a closed period, cautionary period or prohibited period since December 2015. As a result, the Company was unable to make awards under the long term incentive plan (LTIP) approved by shareholders at the last AGM. The inability of Aveng to make awards under the LTIP was particularly worrying in the current business climate as it resulted in an effective lack of future lock-in value and raised key retention concerns. To mitigate this risk, cash-settled retention awards were made to key senior executives with a clawback provision.

In light of the significant changes made to the remuneration policy and approved by shareholders at the 2015 AGM, the remuneration and nomination committee has resolved not to make any significant changes to the remuneration scheme design. The committee will however monitor the impact of these schemes over the medium term to establish delivery against desired outcomes, which should ultimately lead to the fulfilment of shareholders' expectations.

I am particularly proud of the redesign of the Aveng remuneration policy which achieved second position in the Reward Project of The Year category of the 2015 South African Reward Association Annual Awards. In addition, the implementation of the SAP Human Capital Management modules in Aveng was declared a Bronze winner in the SAP Africa awards.

Looking ahead, we are eager to journey into the new financial year with our focus on the next phase of the Group's strategy of *positioning for profitable growth*. The Group's retirement investment strategy will be taking on a new look, which will have future benefits for all of our employees. We will also continue with our executive wellness journey, taking all the necessary steps as a caring employer to ensure that our executive and senior managers are fit and healthy to perform their duties.

I am also pleased to report that the Board will be implementing a board transformation policy and plan. The Board is conscious of its obligation to reflect the diversity of the economically active population while balancing the need to have the requisite experience specific to the infrastructure sector, to promote Board efficacy. In demonstrating the Board's commitment towards advancing diversity, future Board appointments will take diversity considerations into account while ensuring that the Board delivers on its governance mandate as entrusted upon by its shareholders in an effective manner.

Angus Band, the longest serving board member, retired from the Board on 19 August 2016. As a result a new member of the Board will be appointed to the remuneration and nomination committee. I would like to thank Angus Band for his valuable contribution during his tenure on the remuneration and nomination committee.

In this report we cover the following two issues:

1. Remuneration report: Implementation of the remuneration policy during the year under review
2. Remuneration policy: The remuneration policy for the year going forward

As in previous years, due to remuneration governance standards, the remuneration policy addresses the remuneration of senior management and the non-executive directors. Where the discretion of the remuneration and nomination committee is exercised in implementing this policy, this is highlighted in the remuneration report.

This report focuses on remuneration-related activities undertaken during the 2016 financial year and highlights the application of the policy to executive directors, prescribed officers, non-executive directors and where applicable, other permanent salaried employees. Aveng remains committed to complying with sound remuneration governance and applicable legislation, the JSE Listings Requirements and the Code of Good Governance for South Africa 2009 (King III).

In line with our constant efforts to improve the quality of our remuneration reporting, we have made certain improvements to this year's remuneration report by focusing on information which we believe is of interest to our shareholders and other stakeholders.

We have avoided restating information which does not represent changes or action taken during the year, replacing this with easy-to-follow cross-references.

We value our relationships with our shareholders, and work hard to keep the lines of communication open and transparent. During the year, we have engaged with numerous major shareholders.

With specific reference to the Aveng incentive schemes, our major shareholders were satisfied with the progress made on the implementation of most of the elements of the schemes. However, while they understood the circumstances, they were disappointed that no LTIP awards could be made. They were supportive of the cash-based retention scheme as it sought to address the flight risk the Group faced in a proactive manner.

2016 reward highlights

- ◆ A significantly revised remuneration policy was approved by shareholders with a 97,68% favourable vote.
- ◆ The implementation of the minimum shareholding requirement policy. This policy demonstrates that management has faith in the future performance of the Company and it increases management's alignment with shareholders.
- ◆ Implementation of a differentiated approach to the annual remuneration review for all employees. Where increases were awarded, sound remuneration governance principles relating to performance, affordability and sustainability were applied in determining the individual increases.
- ◆ Review of retirement benefit offerings for salaried staff. Details are provided on page 93.
- ◆ Implementation of "fit for purpose" incentive schemes across the Group started having the desired effect on driving improved performance, particularly in the projects environment. The initiation of the claim settlement scheme has had a positive impact on resolving some long outstanding claims.
- ◆ Cash-settled retention award implemented for certain key / critical executives *in lieu* of the annual LTIP award which could not be awarded due to Aveng being in either a closed, cautionary or prohibited period as a result of various strategic transactions underway.

Enhancement of employee benefits

As a caring employer, Aveng continuously seeks to enhance its value proposition offering to its employees. In giving effect to this statement, a detailed review was undertaken on the market competitiveness of the remuneration package structuring and retirement-related benefit offerings. This review resulted in the following changes and outcomes which were implemented with effect from 1 January 2016:

Enhancement of flexible package structuring

Prior to 1 January 2016, employees had the option to structure their pension and provident fund contributions and risk benefits at either 80% or 100% of their TGP or TCOE. From 1 January 2016, a **70% pensionable salary** contribution level was added, thus giving employees even more flexibility.

Risk benefit contributions

The pensionable salary selection of either 100%, 80% or 70% continues to automatically apply to the following benefits:

- ◆ Group life assurance (death cover)
- ◆ Permanent health insurance (disability cover)
- ◆ Group personal accident cover (accidental death benefit cover).

Elective annual savings

To better represent the substance of the practice, we have changed the wording from **7% guaranteed bonus to elective annual savings (EAS)**. Employees still have the option to elect to have 7% of their monthly salary deferred and paid as a lump sum in October each year.

Restructuring of death and disability benefit cover

Death benefit cover

The previous death benefit cover was 3,5 times pensionable salary and was made up as follows:

- ◆ 1,5 times approved benefit – taxable in the event of death
- ◆ 2 times unapproved benefit – taxable as a fringe benefit on a monthly basis and not taxed in the event of death.

To maximise the efficiency of the structure and increase employees' take-home pay, the Company has converted the unapproved benefit to an approved benefit. This results in employees no longer paying fringe benefit tax on a monthly basis, as the entire 3,5 times pensionable salary benefit will instead be taxable upon death. Furthermore, the cost to employees of this cover has reduced.

Disability benefit cover

Previously, employees enjoyed payment of disability benefit up to a maximum of 75% of their pensionable salary, with tax deducted upon payment. As from 1 March 2015, the Income Tax Act provided that the benefit payable will be non-taxable, but employees pay a fringe benefit tax on the cost of this benefit.

Since the benefit would be non-taxable, the 75% would result in employees receiving a much greater benefit than they would have prior to 1 March 2015 (given that the benefit was taxable).

Reduction in risk and administration expenses

In light of the changes to the death and disability offerings, the Company reduced risk and administration expenses payable by 20%, which resulted in an increase in employees' take-home pay on a monthly basis.

Value-added benefits

With the appointment of a new risk benefit service provider, the following value-added benefits were provided at no extra cost to employees:

- ◆ **Funeral support services** – this service provides for transportation of the deceased by road or air to the final funeral home, closest to the place of burial in South Africa or its neighbouring countries, from anywhere in the world.
- ◆ **Cash4♥ones** – in many cases, entire families rely on the monthly income of the employee. When a claimant dies, it can cause financial stress for many dependants. To bridge this financial gap, claimants have the opportunity to nominate a beneficiary to receive a small cash lump sum of three times the monthly disability income benefit should they die.
- ◆ **Back2work** – we will continue to pay a monthly benefit for up to three months after a claimant has returned to work where required. This supports a transition period, allowing employees to gradually increase their fitness for work and productivity to an acceptable level. Employers and claimants can effectively test returning to work without taking any financial risk.

The introduction of these changes provides our employees with greater flexibility in package structuring and increases their take-home pay while offering benefits that are competitively positioned in the market.

Remuneration report continued

Part 2: Remuneration policy overview

Remuneration philosophy statement

Aveng is a multi-disciplinary infrastructure, mining and manufacturing group, anchored in South Africa and Australia, with expertise in a number of geographies and market sectors, including power, marine, water, mining, steel, commercial, industrial, and Oil and Gas. Aveng has a broad footprint in all these market sectors and one of the core principles of its strategy is diversification to ensure sustained growth notwithstanding the industry cycles. The industries in which Aveng operates are known to be tough and volatile 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 its markets and retains and incentivises key people required to deliver its strategy. In doing so, the Company endeavours to continuously ensure that there are no race and gender-based unjustifiable pay inequities within the organisation.

Therefore, the Group is committed to developing and implementing effective remuneration strategies and practices to attract, retain and reward employees commensurate with their performance and contribution. The strategic outcomes sought

through the remuneration philosophy and remuneration policy include rewarding superior performance and penalising poor performance, attracting and retaining critical talent and aligning management's total remuneration with increased shareholder value.

Remuneration strategy

The Group's pay strategy is based on the following core principles:


- ◆ A robust and universal job grading system that renders accurate job grading results for benchmarking purposes
- ◆ Regular remuneration benchmarking for all grades against the general market and the various sectors in which we operate (construction, manufacturing and mining industries) using independent salary surveys
- ◆ Development of market-related pay scales by grade for comparative purposes
- ◆ The existence of a comprehensive performance management system and a coaching-for-performance culture, including performance contracting and regular performance assessments
- ◆ Compliance with all remuneration governance regulations and applicable legislation
- ◆ A clear remuneration structure, comprising guaranteed pay and short and long term incentive plans
- ◆ Incentive pools shaped by group and operating segment profitability and an approach of sustainable future profitability
- ◆ Transparency to enable stakeholders to make reasonable assessments of remuneration practices and underlying governance processes of the Group.

Remuneration design offering


The Group's remuneration offering is designed to:

- ◆ provide an appropriate mix of guaranteed pay and short and long term incentives to attract, retain and incentivise employees
- ◆ ensure that the pay mix supports the Group's 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 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 strategy and targets and promote the desired behaviour
- ◆ reward contributions of employees based on a "fit-for-purpose" approach which takes line of sight and influence into account
- ◆ be fair, equitable, market-related and affordable
- ◆ recognise and reward exceptional performance while penalising mediocre or poor performance
- ◆ articulate an attractive and compelling value proposition for current and prospective employees.

Remuneration governance and practices

The remuneration and nomination committee (the committee) has been established by the Aveng Board in accordance with the Company's memorandum of incorporation. The terms of reference and guiding principles are available in the corporate governance report at www.aveng.co.za 

Remuneration and nomination governance

Remit of the remuneration and nomination committee	Assist the Board to adopt remuneration policies and practices which are aligned to the Group's strategy to create sustainable value and growth over the long term for shareholders and other stakeholders.
Remuneration and nomination activities and actions for 2016	<ul style="list-style-type: none"> ◆ Implemented a revised remuneration policy with effect from 1 July 2015 ◆ The committee recommended financial measures together with targets for the various incentive plans to the Board for approval. These are discussed in the remuneration policy (refer to page 90). ◆ Implementation of the minimum shareholding requirement policy for executive directors  ◆ Introduction of a cash-settled long term retention plan as a result of the inability to make annual awards under the LTIP ◆ Executive directors and non-executive directors' total pay benchmarking against the market, and review and approval of executives' remuneration ◆ Annual increase mandate and its application relative to performance and affordability reviewed, approved and implemented within the mandate ◆ Incentive awards reviewed relative to individual and group performance and market benchmarks, and approved ◆ Performance contracting and reviewing by operating group monitored by the committee quarterly ◆ Annual increases and incentive payments reviewed against performance measures and awarded based on Company performance and sustainable outlook of key business portfolios ◆ Confirmation of the performance condition and targets for the newly approved Aveng short and long term incentive plans ◆ Review of formal succession plan for executive directors and senior / critical positions. Group-wide succession plans reviewed by the committee in April ◆ Reviewed composition of the Board and tenure of executive directors and non-executive directors. New committee chairpersons appointed to address board succession planning ◆ Committee reviewed and approved all senior executive directors' appointments and terminations.
Number of meetings	Six meetings of the committee were held during the 2016 financial year.
External advisers	<p>During the year, the following external advisers were used for the following activities:</p> <ul style="list-style-type: none"> ◆ PwC – to assist the committee with executive director and non-executive director remuneration benchmarking against the market, advice on remuneration and incentive scheme design and practice, and other remuneration-related advice and support as required by the committee ◆ PE Corporate Services – to provide benchmarking on executive pay ◆ Marsh & McLennan (formerly Mercer) – to provide total pay executive benchmarking data for the Australian market, including incentive schemes.
Membership and internal input	<p>The membership of the committee is detailed within the corporate governance section of the integrated report.</p> <p>The chief executive officer and the group executive director attend the committee meetings as invitees. Executive directors are, however, 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.</p>

Remuneration report continued

Discretion

Aveng's approach to remuneration is primarily geared towards ensuring continuous and consistent alignment of employee behaviour with shareholder 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 strategy, trading conditions and economic climate, to ensure that the policy is aligned to the Group's long term strategic objectives through 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 is subject to approval 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.

The committee is able to reduce, remove and / or defer the STI, including the adjustment of STI payments for anomalies or unintended consequences of the application of the formula. The committee will also have discretion to apply the clawback principle relating to bonus shares as part of the STI structure, following recommendation by the CEO. In instances where the CEO is implicated, the committee

will apply its own discretion taking into account the relevant facts and circumstances.

Succession review

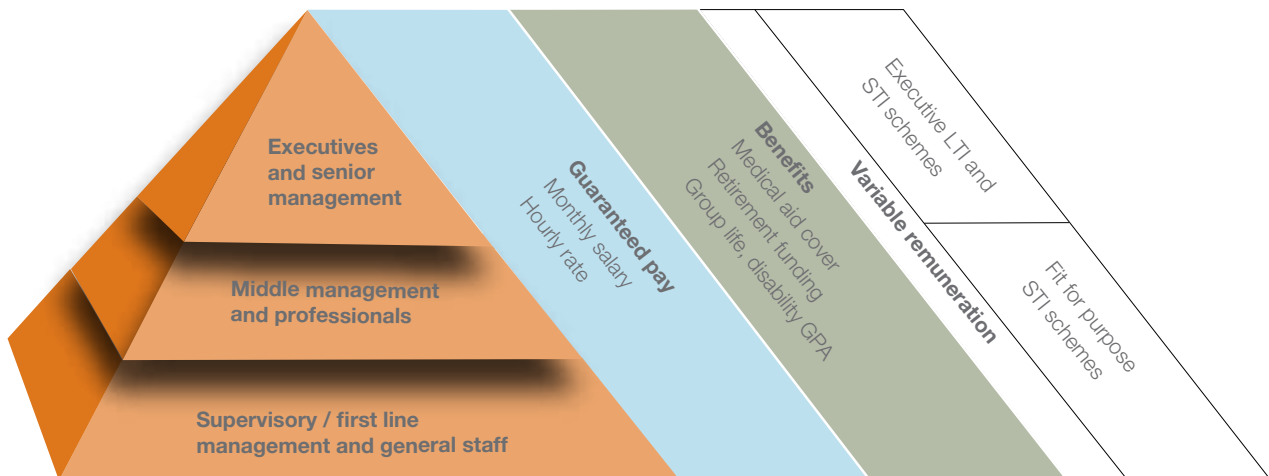
The Group conducts a thorough group-wide succession review in February / March each year. This review includes:

- ◆ Reviewing the top three management levels of the Group, and 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
- ◆ 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 total guaranteed pay (TGP). The variable pay portion is driven by both group and individual performance and the quantum varies year-to-year.

Aveng implemented a three-tier reward structure



Guaranteed pay

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 designed to reward superior performance through short and long term incentive schemes at a higher percentile than the median.

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.

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 recommendation of the annual salary review, the committee reviews the implementation to establish:

- ◆ Whether the overall actual increases implemented remained within the approved mandate
- ◆ The overall increase in the cost of labour as a result of this adjustment
- ◆ That there was a sufficient link to performance in the manner in which the increases were implemented.

Benefits

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' guaranteed pay (GP).

Retirement funding

- ◆ 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' GP 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
- ◆ The rules of the pension and provident fund have been revised to take the Taxation Laws Amendment Act into account
- ◆ To encourage employees to save adequately for retirement, provision is now made in the rules for employees to make additional voluntary contributions
- ◆ A further rule amendment has been submitted to allow members to contribute up to a maximum of 27,5% of remuneration earned from the Group.

Group life and insured benefits

These benefits provide insurance for employees and their dependants in the event of disability, death, critical illness.

Variable remuneration

Performance link to pay

The Group's annual business plan is based on and informed by the Group's 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. KPI assessments are used to determine each individual's personal performance score, which is used as a modifier to the short term incentive payment.

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 term and long term incentives awarded, as described on pages 94 to 96. 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. We are confident in our performance management measurement system and our performance contracts, and believe that accordingly, the linking of these components to the remuneration of our executive directors and prescribed officers encourages superior individual performance through the knowledge that performance will lead to attractive distinguished pay levels.

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, and encourage the creation of long term value for our shareholders.

Remuneration report continued

Variable remuneration schemes

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

- ◆ Short term incentive (STI) (refer below)
- ◆ Long term incentive (LTI) (refer page 96).

These elements of remuneration are discussed in more detail below.

Through the deferral of a portion of the cash-based short term incentive into bonus shares for the executive directors and prescribed officers, a retention element is present within the remuneration policy.

This policy ensures that KPIs identified as important to the business and our shareholders form a significant part of executive directors' and prescribed officers' pay.

Clawback provisions are applicable to unvested bonus shares (and to any deferred project bonuses) under the following circumstances:

- ◆ in the event that a material misstatement of the financial statements of Aveng / operating groups / business units is detected

- ◆ in the event of subsequent poor project performance
- ◆ in the event of significant adverse legal / Competition Act findings against Aveng in which the individual had some culpability
- ◆ in the event of a disciplinary finding against the individual.

Variable pay as a percentage of total remuneration for the CEO, executive directors and prescribed officers are depicted in the below table:

	Guaranteed pay	Variable pay (pay at risk)
CEO	35%	65%
Executive directors and prescribed officers	40%	60%

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.

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 profit after tax (PAT) and operating free cash flow before capital expenditure (capex). 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, business unit and / or operating group in which they work. Individual KPI targets are set in accordance with the Group's key priorities, e.g. 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 and LTI awards to individual Aveng executive directors and senior executives (top three reporting levels) are approved by the committee. Similarly, any exceptions to the STI scheme rules are approved by the committee.

Short term incentive (STI)

In line with the review of variable remuneration, the STI was revised last year. As the MTI was discontinued, an element of the STI for all executive directors, prescribed officers and other members of senior management will be deferred into bonus shares, as more fully described below.

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	There is a portfolio of different STI plans which cover all permanent salaried employees. The plans are based on the same formulaic approach and principles, with different eligibility levels and financial performance measures
Group score and personal score	These are discussed in more detail in the executive STI scheme on page 95
Method to determine award	Calculations are based on a formulae on ATP (actual total package for the relevant financial year) tier percentages, and the actual result against the target
Involuntary terminations: retirement or retrenchment	Award is discretionary and may 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
Settlement	For executive directors, prescribed officers and members of senior management, the STI has an element of deferral. For this reason, the settlement of the executive STI for executive directors and other members of senior management, including prescribed officers, will be 60% in cash, and 40% in bonus shares in terms of the approved LTIP. In the event that the Company finds itself in an extended closed period or challenges are faced with the 5% limit of issued capital, the committee may take appropriate steps, including converting bonus shares into a deferred cash award or making phantom awards.

Executive STI scheme

All executive directors and prescribed officers participate in the executive STI scheme.

The maximum bonus potential for the executive STI scheme is capped at 225% of the suggested STI (actual total pay multiplied by the incentive factor). 225% would be realised if the Group achieved its maximum (stretch targets) in respect of both financial and non-financial measures, and the individual also exceeded all performance expectations against his or her personal KPIs. This is explained further below.

The company score may modify the suggested STI payment from 0% to 150%. The company score is determined according to performance relative to financial and non-financial measures, as set out below, along with the threshold, on-target and stretch targets and vesting profile, and the applicable weightings.

Earning potential on company score

Company score	PAT and operating free cash flow measures	Employees earning potential
Threshold	>80%	0%
On-target	100%	100%
Stretch target	125%	150%

Awards will be made on a linear basis between threshold and stretch target levels.

The personal score may also modify the suggested STI payment from 0% to 150%. The personal score is determined according to the individual performance assessment rating as follows:

Performance rating	Definition	Individual STI performance score
1. Unacceptable performance	STI objectives not met, or behaviour not aligned with values, or key position accountabilities not met	0%
2. Improvement required	Some STI objectives not met, and / or some behaviour not aligned with values, and / or some key position accountabilities not met	Up to 50%
3. Good performance	All STI objectives met and behaviour aligned with values and all key position accountabilities met	Up to 100%
4. Above average performance	All STI objectives and key position accountabilities met, with results in some exceeding expectations, behaviour fully aligned with values	Up to 125%
5. Exceptional performance	All STI objectives and key position accountabilities met, with results in all exceeding expectations, behaviour fully aligned with values	Up to 150%

Ultimately, the actual STI payment will be determined as follows:

- ◆ Actual total pay x incentive factor* x company score (0% to 150%) x personal score (0% to 150%)
- ◆ The STI award is further modified by the Group's employment equity target. This modifier has been introduced to drive the achievement of employment equity targets in a collective manner to improve and sustain the Group's rating under the B-BBEE codes.

In addition to the maximums outlined above, all STI schemes are subject to applicable caps and gatekeepers. For the STI schemes, these are:

- ◆ The executive and corporate office STI scheme pay-out will be limited to a cap of 20% of the Group's PAT

- ◆ Executives who achieve below average performance ratings are not eligible for bonus shares.

Settlement of the executive STI for executive directors and other members of senior management, including prescribed officers will be 60% in cash, and 40% in bonus shares, with the bonus shares vesting over three years. In the event that the Company finds itself in an extended closed period or challenges are faced with the 5% limit of issued capital, the committee may take appropriate steps including converting bonus shares into a deferred cash award or making phantom awards.

The Group will continue with the implementation of the fit-for-purpose cash-based schemes which are performance-driven and self-funded.

* The on-target award incentive percentages of guaranteed pay are determined based on market relativity and affordability.

Remuneration report continued

LTI design principles

Aveng long term incentive plan

In line with local and global best practice, and with shareholder approval at the previous AGM, Aveng has adopted the Aveng long term incentive plan (LTIP) to incentivise, motivate and retain the right calibre of executives and senior management.

Purpose and operation	<p>The LTIP provides participants with the opportunity to be awarded forfeitable shares in the Company to incentivise performance by enabling them to share in the success of the Group, and be placed in a similar position to shareholders.</p> <p>Through the delivery of real shares under the LTIP, participants will become shareholders in the Company and, subject to certain restrictions, will have all shareholder rights (including dividends) from the settlement date, shortly after the award date, subject to vesting conditions.</p>												
Participants	Executive directors, prescribed officers and senior management of any employer company within Aveng.												
Instruments	Awards under the LTIP take the form of bonus shares, performance shares and retention shares (collectively referred to as forfeitable shares). Each instrument serves a different purpose, as expanded below.												
Performance shares	<p>Awards of performance shares are made annually to certain levels of employees, and the vesting of performance shares is subject to the satisfaction of performance conditions and the employment condition of three years from date of award.</p> <p>The following targets and commensurate vesting will be applicable to future awards of the performance shares.</p> <table border="1" data-bbox="376 981 1471 1279"> <thead> <tr> <th></th> <th>Target</th> <th>Vesting scale</th> </tr> </thead> <tbody> <tr> <td>Below threshold</td> <td>n / a</td> <td>0% of the award will vest</td> </tr> <tr> <td>Threshold</td> <td>80% of target</td> <td>50% of the award will vest</td> </tr> <tr> <td>Target</td> <td>Aveng's headline earnings growth per share over the performance period should be equal to or more than the HEPS growth of the companies in the JSE construction index (excluding PPC Limited) over the same period</td> <td>100% of the award will vest</td> </tr> </tbody> </table> <p>A thorough reconsideration of appropriate targets was undertaken during the year, in light of the current business context, and the performance of the sector, and global and local economies. These considerations, combined with a consideration of Aveng's historical performance, confirmed that the performance condition and targets, remain appropriate.</p> <p>Headline earnings per share (HEPS) growth for Aveng and the construction index (excluding PPC Limited) will be calculated between the base year (i.e. for the financial year immediately preceding the start of the performance period) and the financial year at the end of the performance period. Growth in the aggregate HEPS of the constituents will be normalised appropriately to reflect the number of shares in issue in the base year.</p>		Target	Vesting scale	Below threshold	n / a	0% of the award will vest	Threshold	80% of target	50% of the award will vest	Target	Aveng's headline earnings growth per share over the performance period should be equal to or more than the HEPS growth of the companies in the JSE construction index (excluding PPC Limited) over the same period	100% of the award will vest
	Target	Vesting scale											
Below threshold	n / a	0% of the award will vest											
Threshold	80% of target	50% of the award will vest											
Target	Aveng's headline earnings growth per share over the performance period should be equal to or more than the HEPS growth of the companies in the JSE construction index (excluding PPC Limited) over the same period	100% of the award will vest											
Retention shares	Retention shares are intended to be awarded only in specific <i>ad hoc</i> instances where the committee recognises or wishes to retain critical / key talent instrumental in delivering the Group's strategy, the vesting of which is subject to the satisfaction of the employment condition.												
Bonus shares	<p>Awards of bonus shares are made annually to certain levels of employees.</p> <p>The value of the bonus shares is determined as a percentage of the annual short term incentive based on the company and the individual's performance in the previous financial year. In order to earn a short term incentive (and subsequently qualify for bonus shares), certain performance hurdles, described in the short term incentive principles on page 94, must be met.</p> <p>The vesting of the bonus shares is subject to the employment condition of three years from the date of award.</p> <p>In the event that the Company finds itself in an extended closed period or challenges are faced with the 5% limit of issued capital, the committee may take appropriate steps including converting bonus shares into a deferred cash award or making phantom awards.</p>												
Dilution	<p>The maximum number of treasury or issued capital shares that may at any one time be allocated under the LTIP and the Aveng forfeitable share plan shall not exceed 20 833 547 shares, which represents approximately 5% of the number of issued shares as at the date of approval of the LTIP by shareholders. This is in line with market best practice. Shares purchased on open market do not have a dilutionary effect.</p> <p>The maximum number of shares that may be allocated to an individual in respect of all unvested awards under the LTIP may not exceed 4 166 709 shares, which represents approximately 1% of the number of issued shares as at date of approval of the LTIP by shareholders.</p>												

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)


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.

Profit after tax

Earnings / loss for the period after tax as contained in the audited consolidated financial statements.

Legacy plans

Share appreciation right plan (SAR plan) and forfeitable share plan (FSP)

The SAR plan and FSP will not be used as they have been replaced with the LTIP. The awards that are outstanding in terms of these plans will be allowed to run their natural course. More detail surrounding the outstanding awards under the SAR plan, and the FSP is contained on page 100. 

Minimum shareholding requirement (MSR)

Philosophy and business objective

As part of the ongoing drive to align executive and shareholder interests, in terms of both risk and reward, Aveng has implemented an MSR policy for the executives with effect from 1 July 2015. The MSR policy will work in conjunction with

the LTIP to limit the offloading of (equity-settled) awards upon vesting, requiring executives to build up and maintain a meaningful ownership stake within the Company, thereby encouraging executive directors' and senior executives' behaviour, which contributes to the creation of long term value for Aveng and its shareholders.

The salient features of the MSR policy are set out below:

- ◆ The MSR will require selected senior employees to build up to and thereafter maintain a minimum shareholding in Aveng shares
- ◆ Employees may build up the shareholding from their own funds, although it is anticipated that the retention of all or a portion of their vested LTIP awards over the course of a few years will satisfy this goal. The MSR is thus intended to encourage employees who receive LTIP awards to maintain a portion of the shares once the awards have vested and have been settled, to represent their commitment to the creation of shareholder value, and demonstrate their faith in the business
- ◆ To this end, and to present a more tax-efficient option to employees who are subject to the MSR, employees will be given the opportunity to, prior to the vesting date of their awards, elect to subject the awards to a further holding period. This holding period will mean that the shares so pledged may not be sold or disposed of until:
 - a period of no less than one year, as elected by the employee, or any agreed extension thereto, provided that such extension is agreed to before the expiry of the initial holding period
 - the end of the agreed further holding period, or any agreed extension thereto, provided that such extension is agreed to before the expiry of the initial holding period
 - termination of employment of that employee
 - abolishment of the MSR
 - in special circumstances, upon application by the employee and approval by the committee.

The following will be the target shareholdings to be reached by the target date:

- ◆ CEO: 100% of guaranteed package
- ◆ Other executive directors: 50% of guaranteed package.

These targets have been set at these initial levels in recognition of the fact that executives currently have very little shareholding as virtually all prior share awards have not vested. These targets may be reviewed over time by the committee as executives' equity holdings improve.

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
- ◆ The Group's current normal retirement age is 60 years, excluding McConnell Dowell employees (for whom no retirement age is prescribed by Australian labour legislation). However, Aveng 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 Aveng

Remuneration report continued

- ◆ Although this is not yet common practice in South Africa and not a requirement of King III, Aveng executive directors have historically retired by rotation every three years and presented themselves for re-election at the Group's annual general meeting (AGM). 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 these in the case of terminations under exceptional circumstances
- ◆ The rules of the LTIP do not provide for automatic vesting of unvested LTI awards in the event of change of control
- ◆ Accrued MTI and future unvested bonus shares and deferred project bonuses will be forfeited upon the resignation of the employee
- ◆ Deferred remuneration is forfeited where employees are terminated based on fault termination (i.e. resignation, misconduct or underperformance).

Non-executive directors

Policy

- ◆ 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, non-executive directors are also subject to the retirement by rotation process as provided for in the memorandum of incorporation.

Fee structure

Non-executive directors' fees are paid on a retainer basis, for the Board and all committees. For the Board, there is an additional fee paid per meetings in excess of the five scheduled meetings per year for the main Board. There is also an approved McConnell Dowell travel allowance, and a fee per hour for non-executive directors when required to attend meetings in Australia.

A composite fee is paid to overseas based non-executive directors.

Fee approval

On an annual basis, management submits to the committee a proposal for the review of non-executive directors' 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.

In light of the appointment of a UK-based non-executive director onto the Aveng Board and two board committees, a detailed, local benchmark exercise was undertaken to determine a composite fee payable to him. In addition, a per meeting fee was also determined.

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

Total remuneration design

Aveng aims to reward executive directors and management with performance-based variable pay that has a short term cash component, a deferred remuneration component (previously medium term incentive, going forward bonus shares in terms of the LTIP) and a long term incentive plan.

Part 3: Implementation of remuneration policies during the 2016 financial year

2016 guaranteed pay increase

A differentiated approach was adopted for the January 2016 annual remuneration review process, in light of poor business performance and affordability considerations. The salient features of this approach were as follows:

- ◆ No annual increases were awarded to executive directors and prescribed officers
- ◆ There was no overall general salary increase approved, instead differentiated increases per operating group were applied
- ◆ In instances where an increase was awarded, the increase percentage was well below CPI
- ◆ Factors taken into consideration were: affordability, need for increases (i.e. historical awarding of increases within operating group), retention and staff requirements
- ◆ Some operating groups were given an across-the-board rand-based increase to cover for increases in medical aid contributions.

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 a factor considered when determining both annual salary increases and incentive awards. This rating will impact the short term incentive including the bonus shares and performance shares awarded in terms of the approved long term incentive plan.

Key performance	Measure indicator	Deliverables 2016
Health and safety	Zero fatalities	Through ongoing efforts to improve on safety and the implementation of "lead" safety measures, the Group fortunately experienced no fatalities
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 its target of an overall level 2 rating for the period under review
Attraction and retention of key skills	<5% loss 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

Once-off schemes during the year

Claim settlement scheme

A once-off claim settlement scheme was implemented to incentivise selected employees to speedily recover various commercial claims to the benefit of the Company within certain areas of the business.

The total incentive payout equated to less than 1% of the cash received in terms of the claims settled.

Cash-settled retention award

Due to the Company being in a closed, cautionary or prohibited period since December 2015, the committee was unable to make normal annual awards under the newly approved LTIP. The inability of Aveng to make awards under the LTIP is

particularly worrying in the current business climate in which retaining key talent represents a significant challenge – as it results in an effective lack of future lock-in value.

Aveng recognises the importance of retaining critical leadership talent to the future success of Aveng, and on the basis of advice from its advisers and sponsor, as well as industry practice, decided to make a once-off cash-settled retention award to certain selected executive and senior employees. These are executives and key talent, the retention of whom was deemed critical to sustain the current turnaround and future success of Aveng. The award was subject to a lock-in period of three years with the full value of the award payable back to the Group in the event that any such employee resigns or is dismissed by the Group for poor performance or misconduct, within the three-year period.

Remuneration report continued

Long term incentives (LTIs)

Share appreciation rights (SARs) scheme

No SARs granted in 2016.

SARs	Number of appointment awards	Number of annual awards	Total awards	SARs issued	Total number of SARs issued to date	Forfeited to date	Vested to date
2012	12	307	319	6 360 875	6 360 875		
2013	11	248	259	6 055 062	12 415 937		
2014	2	260	262	6 233 008	18 648 945		
2015	1	239	240	6 890 600	25 539 545		
2016	-	-	-	-	25 539 545	(11 860 942)	-

Forfeitable share plan (FSP)

In the year under review, the last allocations of forfeitable shares under the FSP were granted to senior executives.

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 is outlined below:

FSP	Number of awards	FS issued	Total number of FS issued to date	Forfeited to date	Vested to date
2012	9	990 108	990 108		
2013	4	352 200	1 342 308		
2014	6	502 891	1 845 199		
2015	6	502 262	2 347 461		
2016¹	21	4 294 700	6 642 161	(353 044)	(1 106 045)

¹ The awards made in the 2016 financial year were in respect of the annual awards for the 2015 financial year

Performance condition

Vesting of forfeitable shares is subject to the meeting of a performance condition. This performance condition was reviewed by the committee and approved by the Board prior to FSP grants being made to participants. The performance condition applicable for the 2015 financial year award was return on equity measured cumulatively over a three-year vesting period.

Disclosures of executive directors' and prescribed officers' remuneration

CEO: K Verster¹

		2016 (R'000)	2015 (R'000)
Guaranteed pay	Salary ^A	5 040	4 351
	Retirement ^B	404	510
	Total	5 444	4 861
Variable / other cash remuneration	STI payment ^C	854	–
	MTI payment ^D	224	317
	Retention award ^E	4 150	–
	Total	5 228	317
Total		10 672	5 178

SHARE OPTIONS

Year	2011	2012	2013	2014	2015	2016
Opening balance	–	264 987	264 987	264 987	264 987	264 987
Granted	264 987					
Offer price	R37,70					
Expiry date	Sep 2020					
Closing balance	264 987	264 987	264 987	264 987	264 987	264 987
Vested	–	–	66 246	132 492	198 738	264 987

SHARE APPRECIATION RIGHTS

Year	2012	2013	2014	2015	2016
Opening balance	–	111 000	237 800	401 300	618 100
Granted	111 000	126 800	163 500	216 800	
Offer price	R33,75	R30,90	R25,00	R23,94	
Expiry dates	Dec 2018	Oct 2019	Sep 2020	Aug 2021	
Closing balance	111 000	237 800	401 300	618 100	618 100
Vested	–	–	–	–	–

FORFEITABLE SHARES

Year	2012	2013	2014	2015	2016
Opening balance	–	111 111	216 911	523 930	412 819
Granted	111 111	105 800	307 019		768 400
Vesting date			Sep 2016		
	Dec 2014	Oct 2015	and Mar 2017		Sep 2018
Performance condition applied	No	No	Yes	Yes	Yes
Vested and pledged to MSR				(111 111)	(105 800)
Closing balance	111 111	216 911	523 930	412 819	1 075 419

¹ During the past year, the CEO received an employment offer – to ensure the stability of the Group during the various corporate transactions and the successful completion of strategic objectives, the Group made a counter-offer which included an adjustment to the CEO's salary and a cash retention award. Despite the salary adjustments and retention award made, the overall remuneration package still fell short of the offer made to him.

Notes

^A Salary for South African directors is total fixed earnings inclusive of medical aid, group life, accident and vehicle benefits

^B In instances where the retirement funding contributions have reduced, this was undertaken owing to the Taxation Laws Amendment Act that came into effect on 1 March 2016

^C STI awarded for the 2016 financial year

^D MTI paid in March 2016 for prior years' award; the MTI scheme was discontinued this year

^E Cash-settled retention award paid in lieu of a long term share award due to Aveng being in an extended closed period

Remuneration report continued

Finance director (and Group CFO): A Macartney (appointed 1 September 2014)

		2016 (R'000)	2015 (R'000)
Guaranteed pay	Salary ^A	3 587	3 204
	Retirement ^B	229	204
	Total	3 816	3 408
Variable / other cash remuneration	STI payment ^C	420	–
	MTI payment	–	–
	Retention payment ^D	1 300	–
	Total	1 720	–
Total		5 536	3 408

SHARE APPRECIATION RIGHTS

Year	2015	2016
Opening balance	–	243 040
Granted	243 040	
Offer price	R22,63	
Expiry dates	Sep 2021	
Closing balance	243 040	243 040
Vested	–	–

FORFEITABLE SHARES

Year	2015	2016
Opening balance	–	44 189
Granted	44 189	391 000
Vesting date	Sep 2017	Sep 2018
Performance condition applied	Yes	Yes
Closing balance	44 189	435 189
Vested	–	–

Notes

^A Salary for South African directors is total fixed earnings inclusive of medical aid, group life, accident and vehicle benefits

^B In instances where the retirement funding contributions have reduced, this was undertaken owing to the Taxation Laws Amendment Act that came into effect on 1 March 2016

^C STI awarded for the 2016 financial year

^D Retention payment as part of employment contract

Executive director: J Mashaba

		2016 (R'000)	2015 (R'000)
Guaranteed pay	Salary ^A	3 508	3 386
	Retirement ^B	240	260
	Total	3 748	3 646
Variable / other cash remuneration	STI payment ^C	450	–
	MTI payment ^D	198	263
	Retention award ^E	2 438	–
	Total	3 086	263
Total		6 834	3 909

SHARE OPTIONS

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Opening balance	–	155 000	314 264	383 522	457 466	457 466	457 466	457 466	457 466
Granted	155 000	159 264	69 258	73 944					
Offer price	R54,84	R42,80	R40,30	R37,70					
Expiry date	Oct 17	Oct 18	Sep 19	Sep 20					
Closing balance	155 000	314 264	383 522	457 466	457 466	457 466	457 466	457 466	457 466
Vested			38 750	117 316	213 196	327 562	403 178	438 980	457 466

SHARE APPRECIATION RIGHTS

Year	2012	2013	2014	2015	2016
Opening balance	–	90 000	190 900	351 300	542 000
Granted	90 000	100 900	160 400	190 700	–
Offer price	R33,75	R30,90	R25,00	R23,94	
Expiry dates	Dec 2018	Oct 2019	Sep 2020	Aug 2021	
Closing balance	90 000	190 900	351 300	542 000	542 000
Vested	–	–	–	–	–

FORFEITABLE SHARES

Year	2012	2013	2014	2015	2016
Opening balance	–	89 661	89 661	139 661	193 367
Granted	89 661		50 000	143 367	372 800
Vesting date	Dec 2014		Sep 2016	Aug 2017	Sep 2018
Performance condition applied	No	No	Yes	Yes	Yes
Vested and pledged to MSR				(89 661)	
Closing balance	89 661	89 661	139 661	193 367	566 167

Notes

^A Salary for South African directors is total fixed earnings inclusive of medical aid, group life, accident and vehicle benefits

^B In instances where the retirement funding contributions have reduced, this was undertaken owing to the Taxation Laws Amendment Act that came into effect on 1 March 2016

^C STI awarded for the 2016 financial year

^D MTI paid in March 2016 for prior years' award; the MTI scheme was discontinued this year

^E Cash-settled retention award paid in lieu of a long term share award due to Aveng being in an extended closed period

Remuneration report continued

Executive director: D Robinson (retired 17 August 2015)

		2016 (AUD'000)	2015 (AUD'000)
Guaranteed pay	Salary	545	1 190
	Retirement	–	184
	Total	545	1 374
Variable / other cash remuneration	STI award	–	–
	MTI payment	–	57
	Other payments ^A	949	–
	Total	949	57
Total^B		1 494	1 431

SHARE OPTIONS

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Opening balance	–	73 367	159 739	203 856	270 453	270 453	270 453	270 453	270 453
Granted	73 367	86 372	44 117	66 597					
Offer price	R61,80	R42,80	R40,30	R37,70					
Expiry dates	Nov 17	Sep 18	Sep 19	Sep 20					
Forfeited									(270 453)
Closing balance	73 367	159 739	203 856	270 453	270 453	270 453	270 453	270 453	–
Vested			18 341	58 275	109 238	176 853	226 124	253 803	–

SHARE APPRECIATION RIGHTS

Year	2012	2013	2014	2015	2016
Opening balance	–	121 143	291 537	412 444	412 444
Granted	121 143	170 394	120 907		
Offer price	R 33,75	R 30,90	R 25,00		
Expiry dates	Dec 2018	Oct 2019	Sep 2020		
Forfeited					(412 444)
Closing balance	121 143	291 537	412 444	412 444	–
Vested	–	–	–	–	–

FORFEITABLE SHARES

Year	2012	2013	2014	2015	2016
Opening balance	–	149 689	149 689	199 689	50 000
Granted	149 689		50 000		
Vesting date	Dec 2014		Sep 2016		
Performance condition applied	No		Yes		
Taken up				(149 689)	
Forfeited					(50 000)
Closing balance	149 689	149 689	199 689	50 000	–

Notes

^A Other payments are in respect of retirement obligations under Australian Labour Legislation

^B D Robinson's earnings are disclosed in Australian dollars

Prescribed officer: S White

		2016 (R'000)	2015 (R'000)
Guaranteed pay	Salary ^A	3 130	2 699
	Retirement ^B	238	186
	Total	3 368	2 885
Variable / other cash remuneration	STI payment ^C	300	1 330
	MTI payment ^D	496	696
	Retention award ^E	1 400	–
	Total	2 195	2 026
Total		5 564	4 911

Notes

^A Salary for South African directors is total fixed earnings inclusive of medical aid, group life, accident and vehicle benefits

^B In instances where the retirement funding contributions have reduced, this was undertaken owing to the Taxation Laws Amendment Act that came into effect on 1 March 2016

^C STI awarded for the 2016 financial year

^D MTI paid in March 2016 for prior years' award; the MTI scheme was discontinued this year

^E Cash-settled retention award paid in lieu of a long term share award due to Aveng being in an extended closed period

Prescribed officer: H Aucamp

		2016 (R'000)	2015 (R'000)
Guaranteed pay	Salary ^A	3 059	2 906
	Retirement ^B	347	396
	Total	3 406	3 302
Variable / other cash remuneration	STI payment ^C	480	–
	MTI payment ^D	127	251
	Retention award ^E	1 400	–
	Total	2 007	251
Total cash paid		5 413	3 553

Notes

^A Salary for South African directors is total fixed earnings inclusive of medical aid, group life, accident and vehicle benefits

^B In instances where the retirement funding contributions have reduced, this was undertaken owing to the Taxation Laws Amendment Act that came into effect on 1 March 2016

^C STI awarded for the 2016 financial year

^D MTI paid in March 2016 for prior years' award; the MTI scheme was discontinued this year

^E Cash-settled retention award paid in lieu of a long term share award due to Aveng being in an extended closed period

Remuneration report continued

Part 3 continued

Prescribed officer: S Letsoalo

		2016 (R'000)	2015 (R'000)
Guaranteed pay	Salary ^A	3 152	3 045
	Retirement ^B	238	194
	Total	3 390	3 239
Variable / other cash remuneration	STI payment	–	488
	MTI payment ^C	347	375
	Total	347	863
Total		3 737	4 102

Notes

^A Salary for South African directors is total fixed earnings inclusive of medical aid, group life, accident and vehicle benefits

^B In instances where the retirement funding contributions have reduced, this was undertaken owing to the Taxation Laws Amendment Act that came into effect on 1 March 2016

^C MTI paid in March 2016 for prior years' award; the MTI scheme was discontinued this year

Prescribed officer: C Botha

		2016 (R'000)	2015 (R'000)
Guaranteed pay	Salary ^A	3 105	2 953
	Retirement ^B	191	240
	Total	3 296	3 193
Variable / other cash remuneration	STI payment ^C	390	–
	Claim settlement incentive payment ^D	500	–
	Retention award ^E	1 800	–
	Total	2 690	–
Total		5 986	3 193

Notes

^A Salary for South African directors is total fixed earnings inclusive of medical aid, group life, accident and vehicle benefits

^B In instances where the retirement funding contributions have reduced, this was undertaken owing to the Taxation Laws Amendment Act that came into effect on 1 March 2016

^C STI paid for the 2016 financial year

^D Payment made in terms of the once-off claims settlement scheme

^E Cash-settled retention award paid in lieu of a long term share award due to Aveng being in an extended closed period

Prescribed officer: S Cummins (appointed 1 August 2015)

		2016 (AUD'000)	2015 (AUD'000)
Guaranteed pay	Salary	862	–
	Retirement	28	–
	Total	890	–
Variable / other cash remuneration	STI payment ^A	300	–
	Total	300	–
Total cash paid^B		1 190	–

Notes

^A STI awarded for the 2016 financial year

^B S Cummins' earnings are disclosed in Australian dollars

Shareholders' analysis

REGISTERED SHAREHOLDER SPREAD

Registered shareholder spread	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	1 904	46,80	661 731	0,16
1 001 – 10 000 shares	1 316	32,35	4 944 354	1,19
10 001 – 100 000 shares	485	11,92	17 514 621	4,20
100 001 – 1 000 000 shares	287	7,06	96 632 432	23,19
1 000 001 shares and above	76	1,87	296 917 793	71,26
Total	4 068	100,00	416 670 931	100,00

BENEFICIAL SHAREHOLDER CATEGORIES

Category	Total shareholding	% of issued capital
Unit trusts/mutual fund	152 444 210	36,59
Pension funds	123 997 575	29,76
Other	25 449 027	6,11
Private investor	18 658 867	4,48
Insurance companies	18 450 173	4,43
Black economic empowerment total	18 246 510	4,38
Aveng Trusts	14 604 979	3,51
Sovereign wealth	9 579 413	2,30
Aveng LTIP	5 299 854	1,27
University	3 100 513	0,74
Investment trust	2 990 442	0,72
Medical aid scheme	1 659 045	0,40
Custodians	1 347 450	0,32
Local authority	880 403	0,21
Charity	676 737	0,16
Venture capital	626 532	0,15
Hedge fund	558 574	0,13
Remainder	18 100 627	4,34
Total	416 670 931	100,00

PUBLIC AND NON-PUBLIC SHAREHOLDING

	Number of shareholders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	9	0,22	29 195 017	7,01
Directors	5		703 591	0,17
Aveng Limited Share Purchase Trust	1		6 018 386	1,44
Community Investment Trust	1		8 586 593	2,06
Aveng Management Company Proprietary Limited	1		8 586 593	2,06
Aveng LTIP	1		5 299 854	1,27
Public shareholders	4 059	99,78	387 475 914	92,99
Total	4 068	100,00	416 670 931	100,00

BENEFICIAL SHAREHOLDINGS

Beneficial shareholders more than 3%	Total shareholding	%
Allan Gray Balanced Fund	26 260 930	6,30
Investment solutions	17 389 736	4,17
Government Employees Pension Fund (PIC)	15 202 789	3,65
PSG Flexible Fund	13 362 892	3,21
Total	72 216 347	17,33

INVESTMENT MANAGEMENT SHAREHOLDINGS

Investment manager more than 3%	Total shareholding	%
Allan Gray Investment Council	102 765 038	24,66
Visio Capital Management	39 718 016	9,53
Kagiso Asset Management (Pty) Ltd	21 396 047	5,13
Investec Asset Management	19 927 391	4,78
Dimensional Fund Advisers	18 604 024	4,46
Coronation Asset Management (Pty) Ltd	16 004 302	3,84
Government Employee Pension Fund (PIC)	13 863 771	3,33
PSG Asset Management	13 362 892	3,21
Total	245 641 481	58,96

GEOGRAPHIC SPLIT OF INVESTMENT MANAGERS AND COMPANY-RELATED HOLDINGS

Region	Total shareholding	% of issued capital
South Africa	355 721 340	85,37
United States of America and Canada	46 688 556	11,21
United Kingdom	1 625 285	0,39
Rest of Europe	5 589 030	1,34
Rest of World ¹	7 046 720	1,69
Total	416 670 931	100,00

GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS

Region	Total shareholding	% of issued capital
South Africa	339 386 958	81,45
United States of America and Canada	45 223 607	10,85
United Kingdom	1 539 724	0,37
Rest of Europe	19 415 573	4,66
Rest of World ¹	11 105 069	2,67
Total	416 670 931	100,00

¹ Represents all shareholding except those in the above regions.

Summarised statement of financial position

as at 30 June 2016

	Notes	2016 Rm	2015 Rm
ASSETS			
Non-current assets			
Goodwill arising on consolidation		342	342
Intangible assets		325	339
Property, plant and equipment		4 843	5 626
Equity-accounted investments	8	100	151
Infrastructure investments	9	177	778
Deferred taxation	10	1 858	1 580
Derivative instruments		–	6
Amounts due from contract customers	11	1 417	900
		9 062	9 722
Current assets			
Inventories		2 211	2 529
Derivative instruments		20	35
Amounts due from contract customers	11	8 047	9 394
Trade and other receivables		2 058	2 424
Cash and bank balances		2 450	2 856
		14 786	17 238
Non-current assets held-for-sale	12	1 484	559
		25 332	27 519
EQUITY AND LIABILITIES			
Equity			
Share capital and share premium		2 009	2 023
Other reserves		1 821	1 162
Retained earnings		9 689	9 790
Equity attributable to equity-holders of parent		13 519	12 975
Non-controlling interest		37	23
		13 556	12 998
Liabilities			
Non-current liabilities			
Deferred taxation	10	266	221
Borrowings and other liabilities	13	1 770	2 037
Employee-related payables		379	468
		2 415	2 726
Current liabilities			
Amounts due to contract customers	11	1 322	2 562
Borrowings and other liabilities	13	1 214	426
Payables other than contract-related		–	102
Employee-related payables		559	648
Derivative instruments		27	2
Trade and other payables		5 886	7 961
Taxation payable		106	94
		9 114	11 795
Non-current liabilities held-for-sale	12	247	–
		11 776	14 521
TOTAL EQUITY AND LIABILITIES		25 332	27 519

Summarised statement of comprehensive earnings

for the year ended 30 June 2016

	Notes	2016 Rm	2015 Rm
Revenue		33 755	43 930
Cost of sales		(31 260)	(41 566)
Gross earnings		2 495	2 364
Other earnings		591	471
Operating expenses	15	(2 808)	(3 063)
Loss from equity-accounted investments	8	(132)	(60)
Net operating earnings / (loss)		146	(288)
Impairment / loss on derecognition of property, plant and equipment and intangible assets	7	(333)	(330)
Impairment of goodwill arising on consolidation		–	(291)
Profit on sale of subsidiary		–	777
Profit on sale of property, plant and equipment	14	592	–
Earnings / (loss) before financing transactions		405	(132)
Finance earnings		211	177
Interest on convertible bonds		(225)	(167)
Other finance expenses		(327)	(316)
Earnings / (loss) before taxation		64	(438)
Taxation	16	(129)	(80)
Loss for the period		(65)	(518)
Other comprehensive earnings			
Other comprehensive earnings to be reclassified to earnings or loss in subsequent periods (net of taxation):			
Exchange differences on translating foreign operations		786	(372)
Other comprehensive loss released / (recognised) from equity-accounted investments	9	–	28
Other comprehensive earnings / (loss) for the period, net of taxation		786	(344)
Total comprehensive earnings / (loss) for the period		721	(862)
Total comprehensive earnings / (loss) for the period attributable to:			
Equity-holders of the parent		676	(804)
Non-controlling interest		45	(58)
		721	(862)
Loss for the period attributable to:			
Equity-holders of the parent		(101)	(460)
Non-controlling interest		36	(58)
		(65)	(518)
Other comprehensive earnings for the period, net of taxation			
Equity-holders of the parent		777	(344)
Non-controlling interest		9	–
		786	(344)
Results per share (cents)			
Loss – basic		(25,4)	(114,8)
Loss – diluted		(25,1)	(114,4)
Headline loss – basic		(75,2)	(144,3)
Headline loss – diluted		(74,4)	(143,8)
Number of shares (millions)			
In issue		416,7	416,7
Weighted average		397,4	400,6
Diluted weighted average		402,1	402,1

Summarised statement of changes in equity

for the year ended 30 June 2016

	Share capital Rm	Share premium Rm	Total share capital and premium Rm	Foreign currency translation reserve Rm
Balance at 1 July 2014	20	1 988	2 008	1 129
Loss for the period	-	-	-	-
Other comprehensive loss for the period (net of taxation)	-	-	-	(372)
Total comprehensive loss for the period	-	-	-	(372)
Purchase of treasury shares	-	(7)	(7)	-
Equity-settled share-based payment release	-	22	22	-
Equity-settled share-based payment charge	-	-	-	-
Transfer of convertible bond option to convertible bond equity reserve	-	-	-	-
Deferred transaction costs allocated to convertible bond equity reserve	-	-	-	-
Increase in equity investment	-	-	-	-
Foreign currency translation movement	-	-	-	-
Dividends paid	-	-	-	-
Total contributions and distributions recognised	-	15	15	-
Balance at 1 July 2015	20	2 003	2 023	757
(Loss) / earnings for the period	-	-	-	-
Other comprehensive earnings for the period (net of taxation)	-	-	-	777
Total comprehensive loss for the period	-	-	-	777
Purchase of treasury shares	-	(23)	(23)	-
Equity-settled share-based payment release	-	9	9	-
Equity-settled share-based payment charge	-	-	-	-
Recognition of deferred tax on convertible bond	-	-	-	-
Decrease in equity investment	-	-	-	-
Dividends paid	-	-	-	-
Total contribution and distributions recognised	-	(14)	(14)	-
Balance at 30 June 2016	20	1 989	2 009	1 534

Equity-accounted investments reserve Rm	Equity-settled share-based payment reserve Rm	Convertible bond equity 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
(28)	26	–	1 127	10 250	13 385	11	13 396
–	–	–	–	(460)	(460)	(58)	(518)
28	–	–	(344)	–	(344)	–	(344)
28	–	–	(344)	(460)	(804)	(58)	(862)
–	–	–	–	–	(7)	–	(7)
–	(22)	–	(22)	–	–	–	–
–	11	–	11	–	11	–	11
–	–	402	402	–	402	–	402
–	–	(12)	(12)	–	(12)	–	(12)
–	–	–	–	–	–	76	76
–	–	–	–	–	–	1	1
–	–	–	–	–	–	(7)	(7)
–	(11)	390	379	–	394	70	464
–	15	390	1 162	9 790	12 975	23	12 998
–	–	–	–	(101)	(101)	36	(65)
–	–	–	777	–	777	9	786
–	–	–	777	(101)	676	45	721
–	–	–	–	–	(23)	–	(23)
–	(9)	–	(9)	–	–	–	–
–	13	–	13	–	13	–	13
–	–	(122)	(122)	–	(122)	–	(122)
–	–	–	–	–	–	(29)	(29)
–	–	–	–	–	–	(2)	(2)
–	4	(122)	(118)	–	(132)	(31)	(163)
–	19	268	1 821	9 689	13 519	37	13 556

Summarised statement of cash flows

for the year ended 30 June 2016

	Notes	2016 Rm	2015 Rm
Operating activities			
Cash retained / (utilised) from operations		529	(92)
Depreciation		793	929
Amortisation		30	21
Non-cash and other movements	17	(403)	(457)
Cash generated by operations		949	401
Changes in working capital:			
Decrease in inventories		150	201
Decrease in amounts due from contract customers		825	547
Decrease in trade and other receivables		206	357
Decrease in amounts due to contract customers		(1 240)	(43)
Decrease in trade and other payables		(782)	(1 953)
QCLNG repayment		(1 072)	–
Decrease / (increase) in derivative instruments		46	(101)
Decrease in payables other than contract-related		(102)	(102)
Decrease in employee-related payables		(254)	(258)
Total changes in working capital		(2 223)	(1 352)
Cash utilised by operating activities		(1 274)	(951)
Finance expenses paid		(458)	(361)
Finance earnings received		214	174
Taxation paid		(316)	(397)
Cash outflow from operating activities		(1 834)	(1 535)
Investing activities			
Property, plant and equipment purchased			
– expansion		(175)	(175)
– replacement		(319)	(649)
Proceeds on disposal of property, plant and equipment		161	245
Proceeds on disposal of investment property		–	97
Proceeds on disposal of properties	14	1 127	–
Acquisition of intangible assets			
– expansion		(12)	(52)
– replacement		(4)	–
Capital expenditure net of proceeds on disposal		778	(534)
Loans advanced to equity-accounted investments net of dividends received		(63)	(68)
Proceeds on disposal of equity-accounted investments		–	5
Net loans advanced to infrastructure investment companies		(13)	(208)
Acquisition of subsidiary (net of cash acquired)		–	(23)
Net proceeds on disposal of subsidiary		–	1 314
Dividend earnings		7	22
Cash inflow from investing activities		709	508
Operating free cash outflow		(1 125)	(1 027)
Financing activities with equity-holders			
Shares repurchased		(23)	(7)
Loans (repaid) / advanced by non-controlling interest		(20)	76
Dividends paid		(2)	(7)
Proceeds from convertible bonds issued		–	1 947
Net proceeds from / (repayment of) borrowings		429	(2 066)
Net decrease in cash and bank balances before foreign exchange movements		(741)	(1 084)
Foreign exchange movements on cash and bank balances		315	(196)
Cash and bank balances at the beginning of the period		2 856	4 136
Cash related to assets held-for-sale		20	–
Total cash and bank balances at the end of the period		2 450	2 856
Borrowings excluding bank overdrafts		2 984	2 463
Net cash position		(534)	393

Summarised accounting policies

for the year ended 30 June 2016

1. CORPORATE INFORMATION

The summarised audited consolidated financial statements ("results") of Aveng Limited (the "Company") and its subsidiaries (the "Group") for the period ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 19 August 2016.

Nature of business

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 environments 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.

Change in directorate

Mr PA Hourquebie was appointed as a non-executive director effective from 5 August 2015.

Mr D Robinson retired as a non-executive director effective from 31 October 2015.

Mr SJ Flanagan was appointed as a non-executive director effective from 1 November 2015.

Mr PK Ward retired as a non-executive director effective from 30 June 2016.

Mr AWB Band retired as a non-executive director effective from 19 August 2016.

2. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accounting policies below are applied throughout the summarised consolidated financial statements.

Basis of preparation

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

These summarised audited consolidated 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 audited consolidated financial statements are prepared in accordance with IAS 34 *Interim Financial Statements* and the Listing Requirements of the Johannesburg Stock Exchange Limited ("JSE"). The accounting policies adopted are consistent with those of the previous year, except as disclosed in note 3 relating to the adoption of new and revised Standards and Interpretations that became effective during this reporting period.

The summarised audited consolidated financial results do not include all the information and disclosures required in the consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements as at 30 June 2016 that are available on the Company's website, www.aveng.co.za.

The Company's integrated report for the year ended 30 June 2016 will be available by 19 September 2016.

The financial results have been prepared by Clare Gilletti CA(SA) under the supervision of the Group CFO, Adrian Macartney CA(SA).

The summarised audited consolidated financial statements 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.

Assessment of significance or materiality of amounts disclosed in these financial results

The Group presents amounts in these results in accordance with *International Financial Reporting Standards* ("IFRS"). Only amounts that have a relevant and material impact on the results have been separately disclosed. The assessment of significant or material amounts is determined by taking into account the qualitative and quantitative factors attached to each transaction or balance that is assessed.

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED, CHANGES IN ACCOUNTING POLICIES AND OTHER RECLASSIFICATION

As part of the Group's financial reporting improvement initiatives, the structure, format and presentation of disclosures in the financial statements were reviewed. This resulted in the reallocation of certain comparative amounts. This initiative is an ongoing programme targeting the most appropriate disclosure and presentation practices to best serve the interests of the Group's stakeholders based on interaction with them during the period.

The resulting reallocations had no impact on the earnings of the Group and as such the reallocations are regarded as not having had a qualitatively significant effect on the information presented.

Deferred tax assets relating to historical assessed losses of Aveng (Africa) Proprietary Limited were transferred to Aveng Corporate from the various segments as these losses are managed centrally.

	Balance as previously reported Rm	Segment reallocation Rm	Restated balance Rm
Segmental report as at 30 June 2015			
Total assets			
Construction and Engineering: South Africa and rest of Africa	5 767	(1 373)	4 394
Construction and Engineering: Australasia and Asia	11 097	–	11 097
Mining	4 548	(168)	4 380
Manufacturing and Processing	5 815	(109)	5 706
Other and Eliminations	292	1 650	1 942
	27 519	–	27 519
Total liabilities			
Construction and Engineering: South Africa and rest of Africa	2 439	–	2 439
Construction and Engineering: Australasia and Asia	6 295	–	6 295
Mining	2 027	–	2 027
Manufacturing and Processing	1 936	–	1 936
Other and Eliminations	1 824	–	1 824
	14 521	–	14 521

Notes to the summarised consolidated financial statements

for the year ended 30 June 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the summarised consolidated financial statements requires management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Impairment of cash generating units

Where indicators existed the Group assessed the recoverable amount (higher of its fair value less cost to dispose and its value in use) of the relevant cash generating units. The value in use was used as the Group expects to recover the economic benefits through operational use.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model, the expected future cash inflows and the growth rates used for extrapolation and terminal value purposes. The following assumptions were used in the calculations:

- The Group WACC was adjusted to take into account the risk specific to each cash generating unit; and
- Non-cash settled intercompany balances were excluded from the calculation of the Net Asset Value (“NAV”).

Refer to *note 7 – Impairments* for further detail.

5. CHANGE IN ESTIMATE

The Group reassessed the tax deductibility of the unwinding of the convertible bond equity option, through the effective interest rate and as a result a deferred tax remeasurement of R122 million has been raised through equity as required for compound instruments.

6. 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 segments are components of the Group:

- that engage in business activities from which they earn revenues and incur expenses; and
- 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 in the assessment of their performance.

The Group’s reportable segments are categorised as follows:

6.1 Construction and Engineering

6.1.1 Construction and Engineering: South Africa and rest of Africa

This segment includes: Aveng Grinaker-LTA, Aveng Engineering and Aveng Capital Partners (“ACP”). Aveng Engineering was discontinued during the year, the remaining portions of Water and operate & maintain will now form part of Aveng Grinaker-LTA.

Revenues from this segment include the supply of expertise in a number of market sectors: power, mining, infrastructure, commercial, retail, industrial and Oil & Gas.

Aveng Grinaker-LTA business units include: Civil Engineering, Mechanical & Electrical, Building & Coastal and Aveng Water (and remaining work of Aveng Engineering).

6. SEGMENTAL REPORT continued

6.1 Construction and Engineering continued

6.1.2 Construction and Engineering: Australasia and Asia

This segment comprises McConnell Dowell.

This segment specialises in the construction and maintenance of tunnels and pipelines, railway infrastructure maintenance and construction, marine and mechanical engineering, industrial building projects, Oil & Gas construction and mining and mineral construction.

McConnell Dowell business units include: Australia, New Zealand and Pacific, Built Environs, Southeast Asia and Middle East.

There has been a change in disclosure of business units as per discipline to geography in relation to Australia, New Zealand and Pacific and Southeast Asia.

6.2 Mining

This segment comprises Aveng Moolmans and Aveng Shafts & Underground.

Revenues from this segment are derived from mining-related activities.

6.3 Manufacturing and Processing

This segment comprises Aveng Manufacturing and Aveng Steel.

The revenues from this segment comprise the supply of products, services and solutions to the mining, construction, Oil & Gas, water, power and rail sectors across the value chain, both locally and internationally.

During the current year Aveng Steeledale was classified as held-for-sale and Aveng Steel Fabrication was closed. Subsequent to year-end 70% of Aveng Steeledale was sold to a related party subject to conditions precedent. *Refer note 12: Non-current assets held-for-sale.*

Aveng Manufacturing business units include: Aveng Automation and Control Solutions (ACS), Aveng Façades (which has been closed), Aveng Dynamic Fluid Control (DFC), Aveng Duraset, Aveng Infraset and Aveng Rail. Aveng Steel business units include: Aveng Steel Fabrication (which has been closed), Aveng Steeledale (held-for-sale) and Aveng Trident Steel.

6.4 Aveng Capital Partners

During the current year Aveng Capital Partners ("ACP") reached the required threshold for it to be individually disclosed. It is still included in the Construction and Engineering: South Africa and rest of Africa segment, but also shown separately.

Revenues from this segment are derived from returns related to the Group's investment in South African toll roads, real estate and renewable energy concessions and investments.

6.5 Other and Eliminations

This segment comprises corporate services, corporate held investments, including properties and consolidation eliminations.

Notes to the summarised consolidated financial statements

continued

for the year ended 30 June 2016

6. SEGMENTAL REPORT continued

Statement of financial position

	2016		2015		2016	2015	%
	Excluding ACP	ACP	Excluding ACP	ACP			
Construction and Engineering: South Africa and rest of Africa							
ASSETS							
Goodwill arising on consolidation	-	-	-	-	-	-	-
Intangible assets	-	-	2	-	-	2	(100,0)
Property, plant and equipment	437	1	494	-	438	494	(11,3)
Equity-accounted investments	73	2	134	(3)	75	131	(42,7)
Infrastructure investments	-	49	-	706	49	706	(93,1)
Deferred taxation*	48	2	77	13	50	90	(44,4)
Derivative instruments	-	-	-	-	-	-	-
Amounts due from contract customers	1 124	37	2 256	-	1 161	2 256	(48,5)
Inventories	9	-	31	-	9	31	(71,0)
Trade and other receivables	235	34	312	157	269	469	(42,6)
Cash and bank balances	537	18	207	8	555	215	>100,0
Non-current assets held for sale	-	860	-	-	860	-	100,0
Total assets	2 463	1 003	3 513	881	3 466	4 394	(21,1)
LIABILITIES							
Deferred taxation	46	105	67	32	151	99	52,5
Borrowings and other liabilities	-	-	-	-	-	-	-
Payables other than contract-related	-	-	102	-	-	102	(100,0)
Employee-related payables	194	6	208	3	200	211	(5,2)
Derivative instruments	-	-	-	-	-	-	-
Trade and other payables	1 200	39	1 377	5	1 239	1 382	(10,3)
Amounts due to contract customers	435	-	543	71	435	614	(29,2)
Taxation payable	(9)	6	30	1	(3)	31	>(100,0)
Non-current liabilities held for sale	-	-	-	-	-	-	-
Total liabilities	1 866	156	2 327	112	2 022	2 439	(17,1)

* Comparatives have been restated in relation to deferred tax assets that have been reallocated between the segments.

Construction and Engineering: Australasia and Asia			Mining			Manufacturing and Processing			Other and Eliminations			Total		
2016	2015	%	2016	2015	%	2016	2015	%	2016	2015	%	2016	2015	%
100	100	-	-	-	-	10	10	-	232	232	-	342	342	-
-	-	-	20	8	>100,0	142	152	(6,6)	163	177	(7,9)	325	339	(4,1)
805	799	0,8	2 294	2 506	(8,5)	976	1 326	(26,4)	330	501	(34,1)	4 843	5 626	(13,9)
56	56	-	4	4	-	-	-	-	(35)	(40)	12,5	100	151	(33,8)
-	72	(100,0)	-	-	-	-	-	-	128	-	100,0	177	778	(77,2)
940	617	52,4	129	27	>100,0	(74)	(263)	71,9	813	1 109	(26,7)	1 858	1 580	17,6
-	15	(100,0)	19	-	100,0	1	9	(88,9)	-	17	(100,0)	20	41	(51,2)
7 167	6 895	3,9	675	1 253	(46,1)	223	472	(52,8)	238	(582)	>100,0	9 464	10 294	(8,1)
10	7	42,9	244	225	8,4	1 949	2 266	(14,0)	(1)	-	(100,0)	2 211	2 529	(12,6)
96	186	(48,4)	115	91	26,4	1 405	1 463	(4,0)	173	215	(19,5)	2 058	2 424	(15,1)
1 441	2 350	(38,7)	452	266	69,9	424	271	56,5	(422)	(246)	(71,5)	2 450	2 856	(14,2)
84	-	100,0	-	-	-	414	-	100,0	126	559	(77,5)	1 484	559	>100,0
10 699	11 097	(3,6)	3 952	4 380	(9,8)	5 470	5 706	(4,1)	1 745	1 942	(10,1)	25 332	27 519	(7,9)
104	72	44,4	257	182	41,2	5	(54)	>100,0	(251)	(78)	>(100,0)	266	221	20,4
905	250	>100,0	340	557	(39,0)	7	5	40,0	1 732	1 651	4,9	2 984	2 463	21,2
-	-	-	-	-	-	-	-	-	-	-	-	-	102	(100,0)
372	446	(16,6)	217	273	(20,5)	95	122	(22,1)	54	64	(15,6)	938	1 116	(15,9)
-	-	-	-	-	-	27	2	>100,0	-	-	-	27	2	>100,0
2 209	3 928	(43,8)	528	701	(24,7)	1 720	1 757	(2,1)	190	193	(1,6)	5 886	7 961	(26,1)
753	1 588	(52,6)	70	272	(74,3)	47	88	(46,6)	17	-	100,0	1 322	2 562	(48,4)
67	11	>100,0	13	42	(69,0)	(2)	16	>(100,0)	31	(6)	>100,0	106	94	12,8
-	-	-	-	-	-	263	-	100,0	(16)	-	(100,0)	247	-	100,0
4 410	6 295	(29,9)	1 425	2 027	(29,7)	2 162	1 936	11,7	1 757	1 824	(3,7)	11 776	14 521	(18,9)

Notes to the summarised consolidated financial statements

continued

for the year ended 30 June 2016

6. SEGMENTAL REPORT

continued

Statement of comprehensive income

	2016		2015		2016	2015	%
	Excluding ACP	ACP	Excluding ACP	ACP			
	Construction and Engineering: South Africa and rest of Africa						
Gross revenue	7 188	156	8 343	12	7 344	8 355	(12,1)
Cost of sales	(6 959)	(158)	(8 474)	(17)	(7 117)	(8 491)	16,2
Gross earnings / (loss)	229	(2)	(131)	(5)	227	(136)	>100,0
Other earnings	106	220	29	197	326	226	44,2
Operating expenses	(658)	(24)	(727)	(9)	(682)	(736)	7,3
Earnings from equity-accounted investments	(58)	–	(50)	(1)	(58)	(51)	(13,7)
Net operating (loss) / earnings	(381)	194	(879)	182	(187)	(697)	73,2
Impairment of property, plant and equipment and intangible assets	–	–	(209)	–	–	(209)	100,0
Impairment of goodwill arising on consolidation	–	–	–	–	–	–	–
Profit on sale of subsidiary	–	–	–	–	–	–	–
Profit on sale of property, plant and equipment	–	–	–	–	–	–	–
(Loss) / earnings before financing transaction	(381)	194	(1 088)	182	(187)	(906)	79,4
Net finance expenses	(10)	40	(18)	33	30	15	100,0
(Loss) / earnings before taxation	(391)	234	(1 106)	215	(157)	(891)	82,4
Taxation	(2)	(89)	122	(11)	(91)	111	>(100,0)
(Loss) / earnings for the period	(393)	145	(984)	204	(248)	(780)	68,2
Capital expenditure	47	1	96	–	48	96	(50,0)
Depreciation	(76)	–	(91)	–	(76)	(91)	16,5
Amortisation	(1)	–	(5)	–	(1)	(5)	80,0
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	(304)	194	(783)	182	(110)	(601)	81,7

Construction and Engineering: Australasia and Asia			Mining			Manufacturing and Processing			Other and Eliminations			Total		
2016	2015	%	2016	2015	%	2016	2015	%	2016	2015	%	2016	2015	%
12 828	20 912	(38,7)	5 026	5 956	(15,6)	8 794	9 928	(11,4)	(237)	(1 221)	80,6	33 755	43 930	(23,2)
(11 737)	(19 678)	40,4	(4 586)	(5 258)	12,8	(8 289)	(9 243)	10,3	469	1 104	(57,5)	(31 260)	(41 566)	24,8
1 091	1 234	(11,6)	440	698	(37,0)	505	685	(26,3)	232	(117)	>100,0	2 495	2 364	5,5
18	45	(60,0)	72	1	>100,0	130	164	(20,7)	45	35	28,6	591	471	25,5
(1 022)	(1 152)	11,3	(235)	(286)	17,8	(705)	(795)	11,3	(164)	(94)	(74,5)	(2 808)	(3 063)	8,3
(73)	(15)	>(100,0)	(1)	-	(100,0)	-	-	-	-	6	(100,0)	(132)	(60)	>(100,0)
14	112	(87,5)	276	413	(33,2)	(70)	54	>(100,0)	113	(170)	>100,0	146	(288)	>100,0
-	(44)	100,0	(38)	(32)	(18,8)	(295)	(32)	>(100,0)	-	(13)	100,0	(333)	(330)	(0,9)
-	(291)	100,0	-	-	-	-	-	-	-	-	-	-	(291)	100,0
-	777	(100,0)	-	-	-	-	-	-	-	-	-	-	777	(100,0)
-	-	-	-	-	-	22	-	100,0	570	-	100,0	592	-	100,0
14	554	(97,5)	238	381	(37,5)	(343)	22	>(100,0)	683	(183)	>100,0	405	(132)	>100,0
(109)	(36)	>(100,0)	(10)	(42)	76,2	(21)	(25)	16,0	(231)	(218)	(6,0)	(341)	(306)	(11,4)
(95)	518	>(100,0)	228	339	(32,7)	(364)	(3)	>(100,0)	452	(401)	>100,0	64	(438)	>100,0
3	(14)	>100,0	(123)	(194)	36,6	120	(7)	>100,0	(38)	24	>(100,0)	(129)	(80)	(61,3)
(92)	504	>(100,0)	105	145	(27,6)	(244)	(10)	>(100,0)	414	(377)	>100,0	(65)	(518)	87,5
150	262	(42,7)	151	257	(41,2)	139	180	(22,8)	22	81	(72,8)	510	876	(41,8)
(248)	(286)	13,3	(336)	(418)	19,6	(123)	(119)	(3,4)	(10)	(15)	33,3	(793)	(929)	14,6
-	-	-	-	-	-	(13)	(12)	(8,3)	(16)	(4)	>(100,0)	(30)	(21)	(42,9)
262	398	(34,2)	612	831	(26,4)	66	185	(64,3)	139	(151)	>100,0	969	662	46,4

Notes to the summarised consolidated financial statements

continued

for the year ended 30 June 2016

6. SEGMENTAL REPORT continued

The Group operates in five principal geographical areas:

	2016 Revenue Rm	2015 Revenue Rm	2016 Segment assets Rm	2015 Segment assets Rm	2016 Capital expen- diture Rm	2015 Capital expen- diture Rm
South Africa	18 511	19 628	12 850	14 048	353	541
Rest of Africa including Mauritius	1 743	2 908	1 416	1 625	6	65
Australia	5 794	12 847	7 933	8 666	56	26
New Zealand	3 514	3 033	1 050	717	35	84
Southeast Asia	3 542	5 115	1 752	2 154	58	160
Middle East and other regions	651	399	331	309	2	–
	33 755	43 930	25 332	27 519	510	876

7. IMPAIRMENTS

As at 30 June 2016, it was necessary to impair assets due to the subdued economic conditions affecting the Steel business and assets abandoned in Aveng Mining. An impairment charge totalling R333 million was recognised against ancillary operations comprising property, plant and equipment in the *Manufacturing and Processing* (R295 million charge) and *Mining* (R38 million charge) segments respectively.

During the period ended 30 June 2015, the goodwill associated with the Built Environs business (R291 million) was fully impaired within the *Construction and Engineering: Australasia and Asia* segment.

As at 30 June 2015, an impairment charge totalling R273 million was recognised against ancillary operations comprising property, plant and equipment in the *Construction and Engineering: South Africa and rest of Africa* (R198 million charge), *Mining* (R32 million charge), *Manufacturing and Processing* (R32 million charge) and *Construction and Engineering: Australasia and Asia* (R11 million) segments respectively.

A further impairment charge totalling R57 million relating to intangible assets was recognised comprising the *Construction and Engineering: South Africa and rest of Africa* (R11 million), *Construction and Engineering: Australasia and Asia* (R33 million) segments and *Other and Eliminations* segments (R13 million) during the period ended 30 June 2015.

Impairments recognised during the year

	2016 Rm	2015 Rm
Goodwill	–	(291)
Intangible assets	–	(57)
Property, plant and equipment	(333)	(273)
	(333)	(621)

8. EQUITY-ACCOUNTED INVESTMENTS

Opening balance	151	306
Transfer to infrastructure investments held at fair value	–	(3)
Transfer of shareholder loans to infrastructure investments	–	(168)
Transfer to held-for-sale	(17)	–
Loans advanced	65	74
Obligation for Group share of REHM Grinaker Construction losses*	26	–
Share of earnings after taxation and dividends	(132)	(44)
Amount recorded in the statement of comprehensive earnings	(132)	(60)
<i>Excluding:</i> Fair value adjustments on foreign exchange contracts disclosed as derivative instruments	–	16
Dividends received	(2)	(6)
Foreign currency translation movement	9	7
Impairment	–	(7)
Disposal	–	(5)
Other	–	(3)
	100	151

* Losses have been transferred to trade and other payables, being our share of the guaranteed losses.

8. EQUITY-ACCOUNTED INVESTMENTS continued

Investments	% holding	2016 Rm	2015 Rm
Reconciliation of investments			
Oakleaf Investment Holdings 86 Proprietary Limited	50	17	48
REHM Grinaker Property Co Limited	43	16	16
REHM Grinaker Construction Co Limited*	43	–	2
RPP Developments Proprietary Limited**	10	–	10
RPP JV Property Proprietary Limited**	40	–	7
Dutco McConnell Dowell Middle East Limited	49	56	56
Other		11	12
		100	151

* Losses have been transferred to trade and other payables, being our share of the guaranteed losses.

** Transferred to held-for-sale.

The following is summarised financial information for the Group's interest in associates and joint ventures, based on the amount reported in the Group's consolidated financial statements:

	2016 Rm	2015 Rm
Aggregate carrying amount of associates	83	103
Aggregate carrying amount of joint ventures	17	48
	100	151

The Group's share of results of operations of equity-accounted investments are summarised below:

Associates

(Loss) / earnings for the year	(101)	11
--------------------------------	-------	----

Joint ventures

Loss for the year	(31)	(55)
-------------------	------	------

	(31)	(55)
--	------	------

Total loss from equity-accounted investments	(132)	(44)
--	-------	------

Forward exchange contract losses*	–	(16)
-----------------------------------	---	------

Total share of loss from equity-accounted investments	(132)	(60)
--	--------------	------

* The underlying performance of renewable energy contracts housed within Oakleaf Investment Holdings 86 Proprietary Limited was influenced by fluctuations in the ZAR exchange rate against the USD and EUR. This was offset by the realised and unrealised fair value losses on the forward exchange contracts (FEC) held within the contract within the Other and Eliminations segment and presented as part of earnings from equity-accounted investments, in order to reflect the true economic performance of the contract within the context of the Group's economic interest. The carrying amount of the FEC's are recognised in derivative instruments (refer to Derivative instruments note as detailed in the consolidated financial statements available on the Group's website).

Notes to the summarised consolidated financial statements

continued

for the year ended 30 June 2016

8. EQUITY-ACCOUNTED INVESTMENTS continued

Regulatory constraints

There are no regulatory constraints in South Africa, apart from the provision of the Companies Act 71 of 2008 (as amended) of South Africa, that restrict the distribution of funds to shareholders. There are also no regulatory constraints in Australia apart from profits from associates not being distributed without the consent of both the Group and the local shareholders.

Contingent liabilities

The Group's share of bank guarantees issued by its joint ventures and associates is R476 million (June 2015: R537 million). Other than as stated above, the Group did not incur any other contingent liabilities with regard to associates and joint ventures.

For the full list of Group entities, refer to *Group operating entities* note as detailed in the consolidated financial statements available on the Group's website.

For detail on *Commitments* refer to the consolidated financial statement available on the Group's website and note 18: *Contingent liabilities* for the Group's contingent liabilities relating to its associates and joint ventures.

	2016 Rm	2015 Rm
9. INFRASTRUCTURE INVESTMENTS		
South African infrastructure investments		
Financial investments	177	706
	177	706
Other infrastructure investments		
Financial Investments	–	72
Total infrastructure investments	177	778
South African infrastructure investments		
Opening balance	706	–
Reclassification of equity investments from equity-accounted investments	–	3
Reclassification of shareholder loans from equity-accounted investments	–	168
Transfer to non-current asset held-for-sale	(860)	–
Recycling of equity-accounted earnings from other comprehensive earnings	–	28
Reclassification from financial investments	–	126
Fair value remeasurement through comprehensive earnings	251	173
Acquisition of interest in Dimopoint Proprietary Limited	67	–
Loans advanced	65	208
Loan repayment	(52)	–
	177	706
Balance at the end of the year comprises:		
Blue Falcon 140 Trading Proprietary Limited ("Gouda")*	–	217
Dimopoint Proprietary Limited ("Dimopoint")	128	–
Imvelo Concession Company Proprietary Limited ("Imvelo")*	–	40
N3 Toll Concessions Proprietary Limited ("N3TC")*	–	128
Windfall 59 Properties Proprietary Limited ("Sishen")*	–	321
Firefly Investments 238 Proprietary Limited ("Firefly")	49	–
	177	706
Other infrastructure		
Opening balance	72	–
Reclassification from financial investments	–	64
Foreign currency translation movement	12	(4)
Fair value remeasurement through comprehensive earnings	–	12
Transfer to held-for-sale	(84)	–
	–	72

* Transferred to held-for-sale.

	2016 Rm	2015 Rm
10. DEFERRED TAXATION		
Reconciliation of deferred taxation asset		
At the beginning of the year	1 580	1 403
Recognised in earnings or loss – current year*	165	143
Recognised in earnings or loss – adjustment for prior year*	4	81
Effects of change in foreign tax rate*	(7)	–
Foreign currency translation movement	158	13
Restructuring	–	(1)
Disposal of subsidiary	–	(59)
Reallocation from deferred tax liability	(42)	–
	1 858	1 580
Reconciliation of deferred taxation liability		
At the beginning of the year	(221)	(257)
Recognised in earnings or loss – current year*	60	11
Recognised in earnings or loss – adjustment for prior year*	(23)	25
Restructuring	–	1
Accounted for directly in equity	(122)	–
Foreign currency translation movement	(2)	(1)
Reallocation to deferred tax asset	42	–
	(266)	(221)
Deferred taxation asset balance at the year-end comprises:		
Accelerated capital allowances	(5)	(303)
Provisions	231	370
Contracts	(93)	(70)
Other	(38)	358
Assessed losses carried forward	1 763	1 225
	1 858	1 580
Deferred taxation liability balance at the year-end comprises:		
Accelerated capital allowances	(375)	(327)
Provisions	16	29
Contracts	6	17
Other	74	22
Assessed losses carried forward	97	38
Convertible bond	(84)	–
	(266)	(221)

* The net movement on deferred taxation amounts to R199 million (2015: R260 million) in the statement of comprehensive earnings.

Notes to the summarised consolidated financial statements

continued

for the year ended 30 June 2016

10. DEFERRED TAXATION

continued

The Group's results include a number of legal statutory entities within a number of taxation jurisdictions.

As at June 2016 the Group had unused taxation losses of R7 480 million (2015: R5 603 million) available for offset against future profits. A deferred taxation asset has been recognised in respect of R5 854 million (2015: R4 116 million) of such losses. No deferred taxation asset has been recognised in respect of the remaining R1 626 million (2015: R1 487 million) due to the uncertainty of future taxable profits in the related legal entities.

Unused tax losses

The Group performed a five-year forecast for the financial years 2017 to 2021 which is the key evidence that supports the recognition of the deferred taxation assets. This forecast specifically focused on Aveng (Africa) Proprietary Limited, including Aveng Grinaker-LTA. Given its financial performance in the past Aveng Grinaker-LTA contributed significantly to the assessed losses in the Group.

The forecast includes certain restructuring and corporate actions, which will generate additional taxable income in Aveng (Africa) Proprietary Limited. The proposed corporate actions include, the following:

- ◆ the proposed Aveng Grinaker-LTA transaction;
- ◆ the sale of 70% of Aveng Steeleedale; and
- ◆ the sale of investments held by Aveng Capital Partners.

In addition the Group is making good progress in positioning Aveng for future profitability, including considerable restructuring and right sizing of the business in line with current market conditions. Attention has been given to the commercial and risk management processes and pre-tender assessments. This will enhance margins in the foreseeable future.

	2016 Rm	2015 Rm
11. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS		
Uncertified claims and variations (underclaims)** ¹	6 584	5 157
Contract contingencies**	(390)	(253)
Progress billings received (including overclaims) ²	(1 014)	(1 921)
Uncertified claims and variations less progress billings received	5 180	2 983
Contract receivables ³	3 146	5 147
Provision for contract receivables	(2)	*
Retention receivables ⁴	126	243
	8 450	8 373
Amounts received in advance ⁵	(308)	(641)
Net amounts due from contract customers	8 142	7 732
Disclosed on the statement of financial position as follows:		
Uncertified claims and variations**	6 584	5 157
Contract contingencies	(390)	(253)
Contract and retention receivables	3 272	5 390
Provision for contract receivables	(2)	*
Amounts due from contract customers	9 464	10 294
Progress billings received	(1 014)	(1 921)
Amounts received in advance	(308)	(641)
Amounts due to contract customers	(1 322)	(2 562)
Net amounts due from contract customers	8 142	7 732

* Amounts less than R1 million.

** Provisions have been netted off against uncertified claims and variations.

¹ Includes revenue not yet certified – recognised based on percentage of completion / measurement and agreed variations, less provisions and deferred contract costs.

² Progress billings are amounts billed for work performed above revenue recognised.

³ Amounts invoiced still due from customers.

⁴ Retentions are amounts invoiced but not paid until the conditions specified in the contract are fulfilled or until defects have been rectified.

⁵ Advances are amounts received from the customer before the related work is performed.

11. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS continued

	Uncertified claims and variations Rm	Contract contin- gencies Rm	Contract receivables Rm	Provision for contract receivables Rm	Retention receivables Rm	Total Rm
2016						
Amounts due to contract customers						
Non-current assets	1 417	–	–	–	–	1 417
Current assets	5 167	(390)	3 146	(2)	126	8 047
	6 584	(390)	3 146	(2)	126	9 464
2015						
Non-current assets	900	–	–	–	–	900
Current assets	4 257	(253)	5 147	*	243	9 394
	5 157	(253)	5 147	*	243	10 294

*Amounts less than R1 million.

Amounts due from contract customers includes R4,7 billion (2015: R3,7 billion) which is currently subject to protracted legal proceedings.

12. NON-CURRENT ASSETS HELD-FOR-SALE

On 1 September 2015, the majority of the assets held-for-sale as at 30 June 2015 were effectively sold to Imbali Props 21 Proprietary Limited, a member of the Collins Property Group for R1,1 billion cash. The Group retained a 30% interest in Dimopoint Proprietary Limited, a special purpose vehicle created for the purpose of holding the non-core properties that were sold. The Group transferred additional properties to held-for-sale in the current year.

Furthermore, the Group took a decision to dispose of the majority of its infrastructure investments as well as the Steeledale business.

Subsequent to year-end the Group announced the sale of four infrastructure investments (namely Gouda, Sishen, Imvelo and the N3TC) and 70% of Steeledale, both subject to conditions precedent.

Notes to the summarised consolidated financial statements

continued

for the year ended 30 June 2016

12. NON-CURRENT ASSETS HELD-FOR-SALE

continued

						2016 Rm	2015 Rm
Non-current assets held-for-sale						1 484	559
Non-current liabilities held-for-sale						(247)	-
						1 237	559

Movement during the year	Properties	Aveng Steeledale	ACP	GoldlinQ	Other	Properties
Opening balance	559	-	-	-	-	607
Capitalised costs:						
Environmental provision relating to property	15	-	-	-	-	-
Transferred from / (to):						
Property, plant and equipment	163	35	-	-	-	(48)
Equity-accounted investments	-	-	-	-	17	-
Infrastructure investments	-	-	860	84	-	-
Loans to Group companies	-	32	-	-	-	-
Inventory	-	169	-	-	-	-
Amounts due from contract customer	-	5	-	-	-	-
Trade and other receivables	-	165	-	-	-	-
Cash and cash equivalents	-	20	-	-	-	-
Taxation receivable	-	4	-	-	-	-
Elimination of loan to Group companies	-	(32)	-	-	-	-
Sold	(612)	-	-	-	-	-
Total non-current assets held-for-sale	125	398	860	84	17	559
Loans from Group companies	-	(16)	-	-	-	-
Trade and other payables	-	(247)	-	-	-	-
Elimination of loan from Group companies	-	16	-	-	-	-
Total non-current liabilities held-for-sale	-	(247)	-	-	-	-
Net non-current assets held-for-sale	125	151	860	84	17	559

13. BORROWINGS AND OTHER LIABILITIES

	2016 Rm	2015 Rm
Interest-bearing borrowings comprise:		
Payment profile		
– within one year	1 214	426
– between two to five years	1 770	2 037
	2 984	2 463

13.1 Borrowings held at amortised cost

Description	Terms	Rate of interest	2016 Rm	2015 Rm
Convertible bond of R2 billion	Interest coupon is payable bi-annually until July 2019	Coupon of 7,25%	1 731	1 651
Finance sale and lease back amounting to AUD3 million*	Monthly instalment ending in June 2018	Fixed interest rate of 5,52% to 6,08%	34	91
Hire purchase agreement amounting to AUD1 million*	Monthly instalment ending in May 2018	Fixed interest rate of 1,60%	11	–
Hire purchase agreement amounting to AUD5 million*	Monthly instalment ending in May 2018	Fixed interest rate of 5,90%	51	–
Short term facility of AUD10 million****	Repayable in November 2016	Bank bill swap rate plus 0,70%	110	94
Short term facility of AUD60 million***	Repayable in November 2016	Bank bill swap rate plus 2,20%	658	–
Hire purchase agreement amounting to AUD4 million*	Monthly instalment ending in August 2017	Fixed interest rate of 6,81%	42	65
Hire purchase agreement denominated in USD*	Quarterly instalments ending June 2017	Fixed interest rate of ranging 4,58% to 4,65%	138	253
Hire purchase agreement denominated in ZAR*	Monthly instalment ending in December 2017	South African prime less 2,00%	46	74
Hire purchase agreement denominated in ZAR*	Monthly instalment ending in November 2019	South African prime less 1,70%	101	148
Hire purchase agreement denominated in ZAR*	Monthly instalment ending in May 2018	Fixed interest rate of 9,70%	49	69
Finance lease facilities denominated in ZAR*	Monthly instalment ending in March 2020	South African prime	11	13
Interest-bearing borrowings			2 982	2 458
Interest outstanding on interest-bearing borrowings**			2	5
Total interest-bearing borrowings			2 984	2 463

* These borrowings and other liabilities are finance leases.

** Interest outstanding in the current year relates to finance leases.

*** Backed by a bank guarantee.

**** Secured by cash collateral in South Africa.

Notes to the summarised consolidated financial statements

continued

for the year ended 30 June 2016

13. BORROWINGS AND OTHER LIABILITIES

13.1 Borrowings held at amortised cost

	2016 Rm	2015 Rm
Finance lease liabilities are payable as follows:		
Minimum lease payments due		
– within one year	321	369
– in two to five years	194	411
Less: future finance charges	(30)	(62)
Present value of minimum lease payments	485	718

The *Australasia and Asia* operating segment entered into a finance sale and leaseback arrangement in the 2012 financial year and in the current year entered into asset-based finance arrangements.

The arrangement amounting to AUD3 million R34 million (2015: R91 million) has been secured by plant and equipment with a net carrying amount of R22 million (2015: R60 million).

The arrangement amounting to AUD4 million R42 million (2015: R65 million) has been secured by assets with a net carrying amount of R44 million (2015: R49 million).

The arrangement amounting to AUD5 million R51 million has been secured by assets with a net carrying amount of R22 million.

The *Mining* operating segment entered into various asset-based finance lease agreements to purchase operating equipment denominated both in USD and ZAR. These arrangements are secured by the assets for which the funding was provided and are repayable in monthly and quarterly instalments with the final repayment to be made in November 2019. Equipment with a net carrying amount of R471 million (2015: R613 million) has been pledged as security for the facility.

The *Mining and Manufacturing and Processing* operating segments entered into various vehicle lease arrangements. Equipment with the net carrying amount of R7 million (2015: R10 million) has been pledged as security.

14. PROFIT ON SALE OF PROPERTY, PLANT AND EQUIPMENT

	Properties Rm	Vehicles Rm	2016 Total Rm
Held-for-sale assets sold	612	-	612
Transaction costs	5	-	5
Profit on sale of property, plant and equipment	577	15	592
Profit on loss of control	150	-	150
Profit on sale of properties	427	-	427
Profit on sale of vehicles	-	15	15
Total	1 194	15	1 209
Acquisition of interest in Dimopoint Proprietary Limited	(67)	-	(67)
Cash proceeds on sale of properties	1 127	15	1 142

Profit on sale of properties

Effective 1 September 2015, Dimopoint Proprietary Limited ("Dimopoint") (a wholly owned subsidiary of Aveng), issued additional shares to Collins Property Group. Prior to the issue of shares, Dimopoint held a portion of the properties held-for-sale at 30 June 2015 (refer to note 12: *Non-current asset held-for-sale*). The issue of the additional shares resulted in Aveng's interest being diluted thereby resulting in a loss of control of Dimopoint, with Aveng retaining a 30% non-controlling interest. A profit of R150 million resulted from the loss of control of Dimopoint. The remaining 30% investment in Dimopoint is treated as a joint venture as Aveng retains joint control of Dimopoint and is measured at fair value in terms of IFRS 9 in accordance with the IAS 28.18 (*Investments in Associates and Joint Ventures*) Venture Capital Organisation exemption.

Following the loss of control in Dimopoint the remaining held-for-sale properties were sold to Dimopoint for a profit of R427 million.

Profit on sale of vehicles

A profit of R15 million was made on the sale and leaseback of trucks in Aveng Steel.

	2016 Rm	2015 Rm
15. OPERATING EXPENSES		
Operating lease charges	133	97
Rationalisation and restructuring	189	123
Depreciation of property, plant and equipment	41	47
Amortisation of intangible assets	30	21
Share-based payment expense	13	(20)
Employee costs	1 675	1 895
Employee benefits	23	65
Computer costs	128	105
Consulting fees	82	119
Other	494	611
	2 808	3 063
	2016 Rm	2015 Rm
16. TAXATION		
Major components of the taxation expense		
Current		
Local income taxation – current period	20	25
Local income taxation – recognised in current taxation for prior periods	18	(4)
Foreign income taxation or withholding taxation – current period	346	377
Foreign income taxation or withholding taxation – prior periods	(56)	(58)
	328	340
Deferred		
Deferred taxation – current period	(225)	(154)
Deferred taxation – foreign rate change	7	–
Deferred taxation – arising from prior period adjustments	19	(106)
	(199)	(260)
	129	80
	2016 %	2015 %
Reconciliation of the taxation expense		
Effective taxation rate	201,0	(18,3)
Exempt income and capital profits*	328,5	(45,3)
Deferred taxation asset not recognised	(144,6)	63,0
Disallowable charges**	(303,1)	34,4
Prior-year adjustment	29,2	(11,8)
Foreign tax rate differential and other	130,8	6,0
Withholding taxation	(213,8)	0,0
	28,0	28,0

* The items impacting the tax rate in this regard relate mainly to the external dividends received and foreign exchange differences recognised in other comprehensive income.

** This relates mainly to an Australian JV profit distribution that is not deductible for tax purposes.

South African income taxation is calculated at 28% (2015: 28%) of the taxable income for the year. Taxation in other jurisdictions is calculated at the prevailing rates.

Notes to the summarised consolidated financial statements

continued

for the year ended 30 June 2016

	2016 Rm	2015 Rm
17. NON-CASH AND OTHER MOVEMENTS		
Earnings from disposal of property, plant, equipment and vehicles	(648)	(61)
Impairment of goodwill, property, plant and equipment and intangible assets	333	628
Profit on disposal of subsidiary	–	(777)
Fair value adjustments	(306)	(196)
Movements in foreign currency translation	205	(62)
Movement in equity-settled share-based payment reserve	13	11
	(403)	(457)
18. CONTINGENT LIABILITIES		
Contingent liabilities at the reporting date, not otherwise provided for in the summarised consolidated financial statements, arise from performance bonds and guarantees issued in:		
South Africa and rest of Africa		
Guarantees and bonds (ZARm)	3 615	3 721
Parent company guarantees (ZARm)	516	898
	4 131	4 619
Australasia and Asia		
Guarantees and bonds (AUDm)	409	647
Parent company guarantees (AUDm)	521	1 215
	930	1 862

Contract performance guarantees issued by the parent company on behalf of the Group companies are disclosed based on the probability of draw down.

Claims and legal disputes in the ordinary course of business

The Group is, from time to time, involved in various claims and legal proceedings arising in the ordinary course of business. The Board does not believe that adverse decisions in any pending proceedings or claims against the Group will have a material adverse effect on the financial condition or future operations of the Group. Provision is made for all liabilities which are expected to materialise and contingent liabilities are disclosed when the outflows are possible.

	2016		2015	
	Gross of taxation Rm	Net of taxation Rm	Gross of taxation Rm	Net of taxation Rm
19. HEADLINE LOSS				
Determination of headline earnings				
Loss for the period attributable to equity holders of parent**		(101)		(460)
Impairment of goodwill	–	–	291	291
Impairment of property, plant and equipment	333	302	273	252
Impairment of intangible assets	–	–	57	57
(Profit) / loss on sale of property, plant and equipment	(610)	(500)	6	4
Profit on sale of subsidiary	–	–	(777)	(713)
Fair value adjustment on investment property	–	–	(11)	(9)
Headline loss**		(299)		(578)

**Earnings are circulated in accordance with IAS 33 Earnings per share. Headline earnings are calculated in accordance with Circular 2/2015.

20. FAIR VALUE OF ASSETS AND LIABILITIES

The Group measures the following financial instruments at fair value:

- ◆ Infrastructure investments; and
- ◆ Forward exchange contracts.

The Group has reassessed the fair value of its infrastructure investments and those transferred to held-for-sale as at 30 June 2016. A R251 million (2015: R185 million) of unrealised gains have been recognised during the year.

Refer to the Fair Value of Assets and Liabilities note as contained in the consolidated financial statements available on the Group's website for additional detail regarding the methodology, valuation parameters and assumptions applied as well as the fair value hierarchy and the sensitivity analysis.

21. EVENTS AFTER THE REPORTING PERIOD

Subsequent to year-end both the Aveng Capital Partners infrastructure investments and the Steeledale business sales agreements were signed. Refer to *note 12: Non-current assets held-for-sale*. These transactions are subject to various conditions precedent. The proceeds from these transactions will be used to primarily strengthen the statement of financial position of the Group to support Aveng's move to the next phase of its strategy, namely, **positioning for profitable growth**.

Corporate information

Company Secretary

Michelle Nana

Business address and registered office

Aveng Park
1 Jurgens Street, Jet Park
Boksburg, 1459
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 Inc.
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 plc
Commonwealth Bank of Australia Limited
FirstRand Bank Limited
HSBC Bank plc
Investec Bank Limited
Nedbank Limited
The Standard Bank of South Africa Limited

Corporate legal advisers

Baker & McKenzie
Cliffe Dekker Hofmeyr
Norton Rose Fulbright
Webber Wentzel

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
Telefax +27 (0) 11 507 0351/2/3

Registrars

Computershare Investor Services Proprietary Limited
Registration number: 2004/003647/07
70 Marshall Street, Johannesburg, 2001
PO Box 61051
Marshalltown, 2107
South Africa
Telephone +27 (0) 11 370 5000
Telefax +27 (0) 11 688 5200

www.aveng.co.za

