Audited summarised consolidated annual financial statements for the year ended 30 June 2014

Salient features

Revenue	**R53 billion** Increase of 2% from June 2013
Net operating earnings	**R784 million** Increase of 20% from June 2013
Headline earnings	**R421 million** Decrease of 10% from June 2013
Adjusted earnings per share (excluding impairment)	**120.3 cents** Decrease of 4% from June 2013
Earnings per share	**(101.9 cents)** Decrease of 182% from June 2013
Headline earnings per share	**112.5 cents** Decrease of 10% from June 2013
Dividends per share	No dividend was declared for the full year and the prior year
Net asset value per share	**R33.44** Decrease of 2% from June 2013
Two-year order book	**R40,9 billion** 11% increase from R36,7 billion in December 2013
Cash and bank balances	**R4,1 billion** Increase of 6% from June 2013
Net cash position	**R1,3 billion** Decrease of 46% from June 2013

Group structure

THE AVENG GROUP COMPRISES THE FOLLOWING OPERATING GROUPS:

Statement of financial position
as at 30 June 2014

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

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

Statement of comprehensive earnings
for the year ended 30 June 2014

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

Statement of comprehensive earnings (continued)
for the year ended 30 June 2014

	Notes	Audited 2014 Rm	Audited 2013* Rm
Other comprehensive earnings for the period attributable to:			
Equity-holders of the parent		**467**	195
Non-controlling interest		**—**	1
		467	196
Results per share (cents)			
(Loss) / earnings – basic		**(101,9)**	124,6
Adjusted earnings		**120,3**	124,6
Headline earnings		**112,5**	124,6
Diluted (loss) / earnings		**(94,8)**	115,9
Diluted adjusted earnings		**111,9**	115,9
Diluted headline earnings		**104,7**	115,9
Number of shares (millions)			
In issue		**416,7**	389,8
Weighted average		**374,0**	374,0
Diluted weighted average		**402,1**	402,1

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

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

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

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

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

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

Statement of changes in equity

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

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

***The final dividend of 2012.*

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

Statement of changes in equity (continued)

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

Statement of cash flows

for the year ended 30 June 2014

	Notes	Audited 2014 Rm	Audited 2013* Rm
Operating activities			
Cash (utilised) / retained from operations		**(98)**	627
Depreciation		**881**	1 181
Amortisation		**28**	50
Non-cash and other movements		**549**	(337)
Cash generated by operations		**1 360**	1 521
Changes in working capital:			
Increase in inventories		**(13)**	(313)
Increase in amounts due from contract customers		**(2 094)**	(2 368)
Increase in trade and other receivables		**(12)**	(34)
Increase in amounts due to contract customers		**310**	96
Increase in trade and other payables		**755**	1 156
Decrease in payables other than contract-related		**(102)**	—
(Decrease) / increase in employee-related payables		**(106)**	159
Total changes in working capital		**(1 262)**	(1 304)
Cash generated by operating activities		**98**	217
Finance and transaction expenses paid		**(283)**	(164)
Finance earnings received		**127**	126
Taxation paid		**(252)**	(464)
Cash outflow from operating activities		**(310)**	(285)
Investing activities			
Property, plant and equipment purchased			
– expansion	5	**(384)**	(459)
– replacement	5	**(677)**	(925)
Proceeds on disposal of property, plant and equipment		**256**	165
Acquisition of investment property	5	**—**	(71)
Acquisition of intangible assets	5	**(176)**	(29)
Proceeds on disposal of intangible assets		**—**	2
Movement in equity-accounted investments		**(140)**	(39)
Acquisition of subsidiary		**—**	(9)
Proceeds from sale of available-for-sale investment		**—**	80
Dividend earnings		**33**	41
Cash outflow from investing activities		**(1 088)**	(1 244)
Operating free cash outflow		**(1 398)**	(1 529)

Statement of cash flows (continued)

for the year ended 30 June 2014

	Notes	Audited 2014 Rm	Audited 2013* Rm
Financing activities with equity-holders			
Shares repurchased		**(7)**	(47)
Dividends paid		**(6)**	(242)
Financing activities with debt-holders			
Proceeds from borrowings raised		**1 336**	603
Net decrease in cash and bank balances before foreign exchange movements on cash		**(75)**	(1 215)
Foreign exchange movements on cash and bank balances		**314**	308
Cash and bank balances at beginning of the year		**3 897**	4 804
Total cash and bank balances at end of the year	9	**4 136**	3 897
Borrowings excluding bank overdrafts		**2 867**	1 531
Net cash position		**1 269**	2 366

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

Accounting policies to the summarised consolidated annual financial statements

1. Corporate information

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

Aveng Limited is a limited liability company incorporated and domiciled in the Republic of South Africa whose shares are publicly traded. The Group operates in the construction, engineering and mining environment and as a result the revenue is not seasonal in nature, but is influenced by the nature and execution of the contracts currently in progress. Refer to the commentary on pages 25 – 40 for a detailed report on the performance of the different operating segments within the Group.

2. Basis of preparation and accounting policy

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

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

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

The Company's integrated report for the year ended 30 June 2014 will be available by 22 September 2014.

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

The results have been audited by Ernst & Young Incorporated and the unqualified audit opinion is available on request from the company secretary at the Company's registered office.

Contracting revenue

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

Accounting policies to the summarised consolidated annual financial statements (continued)

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

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

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

Change in accounting policy – Investment property

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

N3 Toll concession ("N3TC")

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

As a result of the adoption of *IFRS13 – Fair value measurement,* and a single framework being applied for all fair value measurements, the fair value of the investment was determined by calculating the present value of the projected equity cash flows related to the Group's 10,9% shareholding, based on the risk-adjusted discount rate of 18%. The projected equity cash flows comprising dividends and equity investments were sourced from the updated N3TC financial model. The financial model forecasts revenue (toll pricing and traffic volume), operating costs, capital expenditure and other relevant financial performance measures over the concession term.

Notes to the summarised consolidated annual financial statements

4. Segmental report

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

These operating segments are components of the Group:

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

Notes to the summarised consolidated annual financial statements
(continued)

4. Segmental report (continued)

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

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

Notes to the summarised consolidated annual financial statements

(continued)

4. Segmental report (continued)

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

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

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

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

Notes to the summarised consolidated annual financial statements
(continued)

4. Segmental report (continued)

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

Notes to the summarised consolidated annual financial statements
(continued)

4. Segmental report (continued)

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

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

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

Notes to the summarised consolidated annual financial statements
(continued)

4. Segmental report (continued)

The Group operates in five principal geographical areas:

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

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

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

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

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

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

6. Impairment of non-financial assets

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

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

– Aveng Engineering: Goodwill of Aveng Water business unit

– Aveng Grinaker-LTA: Goodwill and associated indefinite useful life asset

• Aveng Engineering

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

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

As such the Aveng Water business unit would play a supporting role in securing for example, civil engineering water infrastructure contracts, as opposed to its current market facing position. Consequently, the relocation to

Notes to the summarised consolidated annual financial statements
(continued)

6. Impairment of non-financial assets (continued)

another business unit and its ancillary role therein would have a detrimental impact on the R75 million goodwill of the Aveng Water business, especially given the further impairment below. The Group have consequently determined to fully impair the goodwill directly related to Aveng Engineering's Water business amounting to R75 million. No other impairment of the assets of Aveng Engineering is considered necessary.

- **Aveng Grinaker-LTA**

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

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

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

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

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

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

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

7. Deferred taxation

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

Notes to the summarised consolidated annual financial statements
(continued)

7. Deferred taxation (continued)

	2014 Rm	2013 Rm
Reconciliation of deferred taxation liability		
At the beginning of the year	**(319)**	(299)
Transfer from statement of comprehensive earnings – current year	**(42)**	(33)
Transfer from statement of comprehensive earnings – prior year	**1**	19
Available-for-sale fair value reserve	**(21)**	—
Reallocation from deferred taxation asset	**(33)**	117
Restructuring	**161**	(121)
Foreign currency translation movement	**(4)**	(2)
	(257)	(319)
Deferred taxation asset balance at year end comprises		
Accelerated capital allowances	**(368)**	(338)
Provisions	**577**	498
Contracts*	**(194)**	21
Other	**426**	174
Assessed losses carried forward*	**962**	992
	1 403	1 347
Deferred taxation liability balance at year-end comprises		
Accelerated capital allowances	**(304)**	(384)
Provisions	**20**	16
Contracts	**1**	35
Other	**(3)**	11
Assessed losses carried forward	**29**	3
	(257)	(319)

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

Unused taxation losses

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

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

Notes to the summarised consolidated annual financial statements
(continued)

7. Deferred taxation (continued)

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

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

8. Amounts due from / (to) contract customers

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

Notes to the summarised consolidated annual financial statements
(continued)

9. Cash and bank balances

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

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

10. Non-current assets held-for-sale

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

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

Notes to the summarised consolidated annual financial statements
(continued)

11. Payables other than contract-related

Reconciliation of payables other than contract-related – 2014

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

Reconciliation of payables other than contracted-related – 2013

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

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

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

Notes to the summarised consolidated annual financial statements
(continued)

12. Taxation

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

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

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

Notes to the summarised consolidated annual financial statements
(continued)

13. Contingent liabilities

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

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

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

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

Taxation dispute with Zambia Revenue Authority ("ZRA")

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

Notes to the summarised consolidated annual financial statements
(continued)

14. Events after the reporting period

14.1 QCLNG contract

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

14.2 Convertible bond

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

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

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

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

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

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

15. Related parties

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

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

Notes to the summarised consolidated annual financial statements
(continued)

16. Black economic empowerment ("BEE") transaction

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

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

17. Disposals of assets

Disposal of non-core assets

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

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

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

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

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

Commentary

OVERVIEW

Salient features

- All Injury Frequency Rate improved to 3,8.
- Revenue increased marginally by 2% to R53 billion.
- Net operating earnings increased by 20%.
- Headline earnings per share decreased by 10%.
- Major loss-making contracts in Australia are substantially completed.
- Two-year order book increased by 11% to R40,9 billion from December 2013.
- Net cash deteriorated to R1,3 billion from R2,4 billion.
- Cash and bank balances of R4,1 billion (2013: R3,9 billion).

Safety

Safety is a core value of the Aveng Group and integral to the way the Group conducts its business. The Group remains fully committed to improving its safety culture by driving the safety vision: *"Home without harm, Everyone, Everyday",* across all operations.

Regrettably, the Group suffered four fatalities during the 12 month period to 30 June 2014. This remains unacceptable as Aveng strives towards fatality free operations. The Aveng Board and management extend their sincere condolences to the families of deceased employees.

Along with the improvement in the All Injury Frequency Rate, other notable achievements were realised at Kopermyn and Pembani coal washing plants, Sapref project, Sadiola gold mine, Skorpion Zinc and Jurong Co. Jetty Works.

Operating environment

Overview

Despite the slowdown in mining related infrastructure spend in Australia, the market still offers good opportunities, particularly in transport related infrastructure, and oil & gas pipelines.

The South African market continued to be challenging due to the ongoing low levels of infrastructure related spend, the impact of lower mining activities, labour disruptions – though the impact was lower than the previous year – and a generally subdued manufacturing and steel sector.

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

Commentary *(continued)*

Construction and Engineering: Australasia and Asia: Despite the challenging business environment in Australia due to the softness of its core commodity-based sector and increasingly demanding commercial conditions, multi-year major mining and infrastructure contracts contributed to ongoing revenue growth. Operations in New Zealand and South East Asia achieved increased revenue with excellent contract execution in most areas.

Construction and Engineering: South Africa and Rest of Africa: The South African construction industry, which generated 88% of this operating segment's revenue, remained weak during the year under review. The industry was characterised by low levels of activity, strong competition and heavy rainfalls across South Africa in March 2014, which specifically disrupted sites in the Lephalale area.

The **Mining** segment continued to benefit from its diversified client and commodities portfolio despite the difficult trading environment. Pricing and cost pressures characterise the current mining environment. The open cut business managed its operations well in this environment, with a sound operational performance.

The **Manufacturing** businesses had a strong year. In particular, the **Infraset** and **Lennings Rail Services** businesses performed well by taking advantage of transport related opportunities in sub-Saharan Africa and South Africa. The successful expansion into Mozambique and Zambia will provide the business with a platform to pursue other sub-Saharan opportunities. It is expected that benefits will continue to accrue from the further breaking-down of silos and cross-pollination across Manufacturing and Processing and other operating groups.

Aveng Steel operated in extremely challenging market conditions. Lower demand from the construction industry in a generally weak economy was compounded by industrial action in the automotive, construction and mining sectors. Intense competition has further exacerbated overstocking in the steel industry. Despite this, Aveng Steeledale affected a significant turnaround in performance.

FINANCIAL PERFORMANCE

Statement of comprehensive earnings

Revenue of R53 billion remained largely flat against the prior year's R52 billion reflecting consolidating growth. The weaker South African Rand foreign exchange rate contributed R1,6 billion (2013: R3,4 billion) to Rand denominated revenue from the Construction and Engineering: Australasia & Asia and Mining operating segments.

Commentary *(continued)*

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

- a significant 42% reduction in the net operating losses of Aveng Grinaker-LTA;
- a robust 55% increase in net operating earnings in the Manufacturing and Processing segment; and
- Aveng Mining Shafts & Underground experiencing a 147% increase in net operating earnings, having avoided receivable write-downs of the previous year.
- The performance was negatively affected by significant losses from McConnell Dowell's Gold Coast contract and while the impact of labour disruptions was reduced, the direct cost was still material at R179 million.

Earnings from equity-accounted and other investments increased to R66 million from R29 million in June 2013 due to earnings from the investments in renewable energy contracts, as well as McConnell Dowell's Middle East investments.

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

As a result of improved returns from the Group's investment in the Goldfields Mall investment property, the carrying amount of the Group's investment in that property increased by R15 million to reflect its fair value (refer to *note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassification of the summarised consolidated annual financial statements*).

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

The taxation expense marginally decreased from R167 million in the comparative period to R161 million. Excluding the impact of the impairment charges in the current year, the effective tax rate reduced marginally to 26% (2013: 27%).

Loss per share (LPS) of 101,9 cents decreased 182%, adjusted earnings per share (AEPS) of 120,3 cents decreased 4% (2013: EPS and AEPS 124,6 cents) and headline earnings per share (HEPS) of 112,5 cents decreased by 10%. AEPS modifies LPS by eliminating the impact of the aforementioned impairment.

Commentary *(continued)*

Statement of financial position

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

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

Equity-accounted investments held by the Group increased to R306 million from R144 million in the prior year, as a result of the increase in the Group's investments in renewable energy contracts of R107 million, and equity-accounted earnings of R33 million.

Amounts due from customers (non-current and current) increased significantly from the comparative period by R2,1 billion to R11,4 billion (2013: R9,3 billion). The main contributors were as follows:

- An increase in uncertified claims and variations of R2,6 billion to R6,8 billion, mainly relating to McConnell Dowell with a carrying amount of R4,5 billion (2013: R2,7 billion) and Aveng Grinaker-LTA of R1,2 billion (2013: R872 million);
- A decrease in contract and retention receivables of R480 million to R5,7 billion; and
- The loss allowance provision against amounts due from contract customers increased by R26 million to R1,1 billion, of the back of higher demobilisation provisions relating to Aveng Moolmans' contracts in West Africa. This provision was reallocated from the provisions (as disclosed in 2013) to amounts due from contract customers to reflect the net risk exposure implicit in uncertified claims and variations (refer to *note 3: New accounting standards and interpretations adopted, changes in accounting policies and other reclassification of the summarised consolidated annual financial statements*).

Amounts due to contract customers increased by R310 million to R2,7 billion from the prior period, due to an increase in progress billings in McConnell Dowell of R700 million mitigated by the utilisation of amounts received in advance in Aveng Grinaker-LTA of R300 million.

Commentary *(continued)*

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

These factors culminated in an operating free cash outflow of R1,4 billion (2013: R1,5 billion adjusted for the deconsolidation of previously consolidated entities in terms of *IFRS 10 Consolidated Financial Statements)* primarily reflecting the increased working capital requirements associated with major contracts.

Cash and bank balances increased to R4,1 billion (2013: R3,9 billion) while the net cash position deteriorated to R1,3 billion from R2,4 billion in the comparative period. The deterioration was due to the increase in borrowings due to working capital requirements needed to fund contracts in Australasia and Asia.

The final shares in terms of the amended BEE share transaction were issued on 30 June 2014 resulting in the issued share capital increasing by 26,9 million shares to 416,7 million. Of the 26,9 million shares issued, 8,6 million were allocated to both the Community Investment Trust and the Aveng Empowerment Trust and 9,7 million to the BEE strategic partner. Of the total economic benefit of R942 million (as previously reported in the 2012 financial year), R301 million was awarded to employees. The Community Investment Trust and the BEE strategic partner converted to a direct shareholding of 2% and 2,3% respectively. The Community Investment Trust will utilise the future proceeds from its shareholding to focus on community development initiatives which include key focus areas of technical skills development and improvement of mathematics and science education at secondary school level. The issuing of shares was settled against retained earnings and had no impact on the cash flows of the Group. This concludes a transaction that resulted in a very positive outcome in line with the Group's commitment to empowering in the spirit of South Africa's transformation objectives.

In line with the strategic objective to strengthen the financial position of the Group, the Board decided to diversify the Group's funding sources, extend the debt maturity profile and reduce overall borrowing levels and the cost thereof to enable Aveng to concurrently pursue contract claims to a positive conclusion whilst taking advantage of growth opportunities. Consequently, the Group:

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

Commentary *(continued)*

- Subsequent to the Group's reporting date, on 16 July 2014, a R2 billion senior unsecured convertible bond with a coupon of 7,25% maturing on 24 July 2019 was successfully placed. The bonds are convertible to shares at a premium of 30% on the reference share price at the option of the bondholders (currently R28,76 though subject to standard modifications common to these instruments), subject to approval of shareholders at a meeting to be convened on 19 September 2014. The instruments will be listed on the Johannesburg Stock Exchange ("JSE") on 29 August 2014.
- The Group has adequate funding facilities available due to arranging revolving credit facilities of R2 billion, an 18 month revolving credit bridge facility (backed by the sale of properties) of R1 billion and the convertible bond of R2 billion.

OPERATING REVIEW

Construction and Engineering: Australasia and Asia

This operating segment comprises McConnell Dowell Construction, Tunnelling, Electrix, Built Environs and the Pipeline business units.

Revenue increased by 5% from 2013, though remained flat in Australian dollar terms at AUD3 billion. Additional substantial losses on the Gold Coast contract due to execution challenges experienced had a significant impact on the operating segments and the Group's performance, with net operating earnings decreasing by 58% to R271 million (2013: R639 million).

Revenue growth of 2% in the **Australian Operations** was driven by the Hay Point Berth and Roy Hill iron ore marine contracts. Inclement weather during the first half of the year resulted in delays to the Hay Point Berth contract. Completion of the works on this contract is expected in the first half of the 2015 financial year.

The Gold Coast contract has now been substantially completed with technical hand-over to the client during July 2014. Cash outflow associated with this contract is still expected in the early part of the 2015 financial year due to close out and demobilisation actions. Its cost to completion has significantly exceeded budget due to complex design and scope amendments, along with the impact of delay events and acceleration requirements. This resulted in a material loss being recognised in the financial year along with a significant increase in uncertified revenue. With completion reached, the process to finalise and resolve claims with the affected counterparties will be intensified. Given the technical and legal complexities associated with the process, it is expected that the commercial negotiations will be protracted, and thus the final outcome remains an uncertain and material risk to the Group.

Commentary *(continued)*

The **Pipelines** business unit reported an 11% decline in revenue as the large liquefied natural gas pipeline contracts in Queensland progressed towards completion. Construction work on the Australia Pacific Liquid Natural Gas contract was completed in June 2014 and work on the Gladstone Liquefied Natural Gas contract continued. Commercial close-out for these two contracts is expected in the first quarter of the 2015 financial year. Segment profitability, however, continues to be negatively impacted by the non-contributing QCLNG contract. Although the key contract milestones were successfully met and milestone completion incentives earned, the commercial claims process remains a material risk. Significant executive management effort is being applied to recover losses on the QCLNG contract. In December 2013, the QCLNG joint venture was unsuccessful in the first part of the commercial claims arbitration under the expedited arbitration. Leave to appeal this outcome, as announced on 21 July 2014, was unsuccessful. The second arbitration case will be managed on the International Chamber of Commerce rules instead of an expedited arbitration structure that has been applied in the first part of the arbitration process. Claims were submitted on 23 July 2014 and the arbitration case is only likely to be heard by the end of the 2015 financial year. Claims contained in the second arbitration are considerably larger in both number and monetary value than those to which the initial arbitration award applied. The parties involved are intent on expediting the arbitration process.

The **Overseas Operations** performed well in challenging market conditions, achieving strong profit growth on excellent execution performances, despite a marginal 1% decrease in revenue. Revenue was sourced from the power, marine and building sectors in New Zealand and South East Asia (Indonesia and Malaysia) supported by a solid performance by the Middle East business (oil, gas and mechanical and electrical work).

The **Electrix** business unit continued to perform well as reflected in another year of strong growth in the electrical and gas sector in New Zealand and Australia, resulting in a 32% growth in revenue. Securing the Kiwi Rail North Regional Traction Maintenance contract positions the business to expand further in the transport sector.

The revenue of the **Building** operation increased as work continued on the Perth Airport Terminal 1 expansion and the Ocean Keys Shopping Centre expansion, which are McConnell Dowell's two largest contracts in Western Australia.

The **Tunnelling and Underground** operation reported a significant increase in revenue of 83% due to the Beauty World tunnel and station contract in Singapore and the Waterview contract in New Zealand.

The operational team continued to focus on strengthening execution performance.

Construction and Engineering: South Africa and Rest of Africa

This operating segment comprises Aveng Grinaker-LTA and Aveng Engineering.

This segment no longer includes Aveng Steel Fabrication, Aveng Manufacturing Facades and Aveng Manufacturing Automation & Control Solutions, effective 1 July 2013. Comparatives have been amended accordingly.

Commentary *(continued)*

Revenue increased by R1,1 billion to R8,5 billion (2013: R7,4 billion), mainly due to Aveng Engineering's increased activity on the Sishen and Gouda renewable energy contracts, the ramp up of the major rail contracts and the commencement of two new major building contracts by Aveng Grinaker-LTA, namely Mall of the South and the Sasol Corporate Head Office.

Net operating losses significantly reduced against the prior year, though losses emanated from insufficient margins on legacy contracts, most notably the Mokolo Crocodile Pipeline contract, at Aveng Grinaker-LTA. This was partly offset by a profit at Aveng Engineering as a result of good progress on the renewable energy contracts and the cost reduction process. As a result, the net operating loss for the segment reduced by R402 million (42%) to R566 million loss (2013: R968 million loss).

Aveng Grinaker-LTA

Revenue increased by 12% to R7,5 billion (2013: R6,7 billion). The increase was as a result of the ramp-up of the Nacala and Majuba Rail Link contracts, as well as the commencement of the Mall of the South and the Sasol Corporate Head Office.

Although significant improvement has been made from the prior year, performance was negatively impacted by delays experienced on the Mokolo Crocodile Pipeline contract as a result of excessive rain and other non contributing legacy contracts that continue to be worked out of the revenue stream.

The first half of the financial year, was focused on rebuilding morale within the business. Senior management embarked on client engagements on the problematic contracts. Capability assessments and business process mapping also received attention.

The second half of the financial year saw a strengthening of leadership in the civils business unit, as well as increased focus on contract execution, commercial, tendering and financial functions. The senior management team is responsible for leading the immediate and medium term business strategy and plans. The fixed cost structure of the operating group is being reassessed, though savings will only begin to realise during the 2015 financial year.

Civil Engineering achieved a 39% increase in revenue, but its profit margin was heavily impacted by the Mokolo Crocodile Pipeline contract which was a significant contributor to the overall operating losses. The losses on this contract arose from the unusual heavy rainfall in March 2014 which caused significant damage to the pipeline and further delays. Very little progress was made on the contract during March 2014. Some of the work areas remained inaccessible for an extended period, culminating in a three month delay to the project. The installation of the mechanical and electrical work on the pump station has commenced which enables the work in these areas to progress in advance of what has been programmed. Opportunities to recover the losses through, among others, insurance claims are being pursued. All notices have been lodged with the insurers.

The Nacala Rail contract in Tete province, Mozambique commenced in July 2013 and achieved good progress. 76% had been completed despite commissioning delays and heavy rains in the second half of the year, with contract completion expected in September 2014 as the average daily current production is in line with the recovery programme requirements.

Commentary *(continued)*

The Majuba Rail Link contract was also adversely impacted by inclement weather and labour disruptions, resulting in a revised programme for completion in October 2015 with all efforts being made to meet the contractual milestone.

The Medupi Power Station Joint Venture contract's contractual claims were submitted to counter the eroding effect of delayed actions and are currently being discussed with Eskom. The contract is subject to continuous review to streamline delivery.

Mechanical & Electrical (M&E) experienced a 9% decline in revenue. M&E is involved in Eskom's two new coal fired power plant contracts. Actions to recuperate associated costs relating to delays continue.

The **Building and Coastal** operation experienced a 3% increase in revenue due to the completion of the Cradlestone Mall contract in Krugersdorp in the first half of the year and the ramp up of the Sasol Head Office in Sandton and the Mall of the South in Alberton in the latter part of the year. Works on the two new contracts are progressing well despite heavy rains during the second half of the financial year and unforeseen ground conditions on the Sasol contract.

Aveng Engineering

Aveng Engineering was established on 1 July 2013 as the operating group responsible for generic engineering services and contract management activities in the water, power and energy, and minerals sectors. It houses the design and construction services of the Aveng Group's renewable energy interests.
The operating group's revenue for the year under review increased by 60% to R1 billion (2013: R643 million) reflecting a distinct shift from the minerals processing and water sectors, which are under pressure, to the more buoyant renewable energy sector. Net operating earnings, despite being impacted by challenges in the **Water** and **Minerals Processing** divisions, improved as a result of equity accounted profits on the good progress of the renewable energy contracts and cost optimisation measures.

The **Power** division is involved in a joint venture with Acciona Energia to design, build and operate the Sishen Photovoltaic solar energy farm in the Northern Cape and the Gouda Wind Energy Facility in the Western Cape. The Sishen solar facility is on schedule for completion in December 2014 and the Gouda wind facility is on schedule for completion in May 2015.

Mining

This operating segment comprises Aveng Moolmans and Aveng Mining Shafts & Underground.

The segment reported an 11% decrease in revenue to R6,6 billion (2013: R7,4 billion). Net operating earnings reduced by 25% to R529 million (2013: R701 million) due to the general downturn in the mining and commodity market and non renewal of contracts at Aveng Moolmans.

Commentary *(continued)*

The revenue of **Aveng Moolmans** declined by 14%, impacted by weak commodity prices in the mining industry which contributed to the completion and non renewal of three gold mining contracts in West and Central Africa (Ghana, Guinea and Tanzania) during the second half of the financial year and the cancellation of the Lumwana copper contract in Zambia in 2013. Net operating earnings were further impacted by the unforeseen costs associated with demobilisation of equipment and contract closures, and a reduction in scope at the Sadiola contract in Mali. Despite the decrease in revenue, efficiency initiatives assisted in sustaining the operating margins.

In December 2013, Moolmans was awarded a significant five year contract at the Nkomati Nickel Mine in Mpumalanga for the African Rainbow Minerals and Norilsk Nickel Africa joint venture, utilising the idle fleet from the cancelled contracts in Zambia and Ghana. The contract to mine 30 million tonnes per annum of waste and ore commenced in July 2014.

Aveng Moolmans also secured extensions for Tati Nickel's Phoenix Mine in Botswana to September 2015 and the Langer Heinrich Uranium Mine in Namibia to December 2018.

Aveng Moolmans continued to record good operational performances in its South African operations. The contract at Sishen Iron Ore Mine for Anglo American's Kumba Iron Ore was renewed until 2017.

The Zambia Revenue Authority (ZRA) has issued additional tax assessments against Aveng Moolmans which are currently being disputed. Aveng Moolmans has raised sufficient provision in this regard.

The non renewal of contracts, new awards and extensions have altered the geographic and commodity profile of Aveng Moolmans' contract portfolio and reduced its overexposure to one client in the gold mining sector. Work in the rest of Africa accounts for 38% of the order book, compared to 50% in December 2013.

Aveng Mining Shafts & Underground experienced a marginal reduction in revenue of 3% due to the impact of conditions in the mining industry and a more selective approach to new work in order to strengthen the quality of the operation's earnings. Net operating earnings were impacted by margin slippage at some South African contracts combined with operational challenges experienced at the Chuquicamata Copper Mine in Chile.

Agreement has in principle been reached with Codelco, the client for the Chuquicamata contract, to settle a significant number of outstanding claims. This will assist the contract in returning to profitability, and reduce cash flow pressure.

Good operational progress was made on work at the Wesizwe Platinum Bakubung Mine and Sasol's Shondoni coal contract. Despite delays in the environmental management plan for Platreef, site establishment has commenced.

Commentary *(continued)*

Manufacturing and Processing

This operating segment comprises Aveng Manufacturing and Aveng Steel, and now includes Aveng Steel Fabrication, Aveng Manufacturing Facades, and Aveng Manufacturing Automation & Control Solutions, effective 1 July 2013. Comparatives have been amended accordingly.

Revenue remained flat at R10,6 billion (2013: R10,6 billion) and net operating earnings increased by 54% to R363 million (2013: R235 million).

Aveng Manufacturing

Aveng Manufacturing delivered a very strong financial performance in spite of tough market conditions and the impact of the platinum mining labour disruption impacting Aveng Manufacturing Duraset, Aveng Manufacturing Facades and Aveng Manufacturing DFC. Total revenue grew by 13% to R3,4 billion (2013: R3 billion) with a resulting improvement in net operating earnings largely as a result of:

- substantial increases in the volumes of railway sleeper sales in Mozambique, Zambia and South Africa by Aveng Manufacturing Infraset;
- award of significant rail construction and maintenance contracts at Aveng Manufacturing Lennings Rail Services; and
- ongoing growth in the supply of concrete products to domestic construction contracts.

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

Aveng Manufacturing Infraset's revenue increased by 37%, benefiting from the opportunities in its precast concrete markets in South Africa and southern Africa. It was particularly successful in increasing the supply of concrete sleepers and pipes to rail contracts from its newly constructed factory in Tete, Mozambique to the Nacala Section 2 railway contract and also to Zambian Railways from its Brakpan factory. The expanded Zambian factory commenced operations in mid June 2014 in support of its Zambia Railways contract. New awards include Eskom's Majuba Rail contract and supply for a rail development contract for Kalagadi Manganese in the Northern Cape. In addition, Aveng Manufacturing Infraset experienced ongoing growth in the supply of its tile and paving products to low-cost housing contracts in South Africa.

Despite a 10% decrease in revenue, **Aveng Manufacturing Lennings Rail Services** regained momentum after completion of the FMG rail construction contract in Australia. Contracts currently underway include Nacala Section 2 railway contract in Mozambique, Majuba Rail contract for Eskom, construction contracts for Exxaro and Kalagadi Manganese as well as a number of three-year contracts for maintenance of the Transnet rail network.

Commentary *(continued)*

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

Aveng Manufacturing Duraset was particularly affected by protracted labour disruptions in the platinum sector resulting in low demand which contributed to a 6% reduction in revenue.

Aveng Manufacturing DFC achieved 9% growth in revenue due to the impact of higher international sales volumes in the USA and Finland in spite of the weaker mining and water reticulation sectors in the South African and Australian markets. The business entered into long-term contracts with Tsurumi, a Japanese supplier of water pumps and Clay-val, a European supplier of large water valves, to supply their products to the rest of Africa.

Aveng Manufacturing Automation & Control Solutions performed well, reporting a 17% increase in revenue as a result of an increase in general product sales, this despite delays in the awarding of new contracts. The business focused on improving its operational efficiencies and strengthening its business development in the sugar, water and chemical processing industries.

Aveng Steel

This operating group consists of Aveng Trident Steel, Aveng Steel Fabrication and Aveng Steeledale.

The financial performance of Aveng Steel was heavily impacted by lower sales volumes due to two consecutive labour disruptions within the automotive and component manufacturing sectors in the first quarter of the financial year, and subdued activity in its key markets. This resulted in a 4% decline in revenue to R7,2 billion (2013: R7,5 billion). Profit margins of Aveng Steel declined as marginal price increases did not compensate for the lower demand and the impact of the aforementioned labour disruptions.

The benefits of integrating the three businesses began to materialise during the year and interventions to turn around Aveng Steeledale and Aveng Steel Fabrication resulted in additional cost reductions. As a consequence of these actions, Aveng Steeledale achieved a significant turnaround in performance delivering a net operating profit in the second half of the financial year. Cost cutting measures combined with stronger receivables management and improved productivity on some contracts enabled Aveng Steel Fabrication to significantly reduce its operating losses.

Commentary *(continued)*

Aveng Trident Steel's performance was constrained by weak demand, the inability to effect price increases as well as increased competition and lower demand from the automotive industry, partly as a result of the labour disruptions.

Aveng Steeledale achieved its primary objective to restore fundamental business practices and a turnaround to profitability. This resulted in a significant reduction in direct and indirect costs, while stronger emphasis was placed on leveraging Steeledale's competitive advantages of geographic spread and experience in managing construction sites.

Aveng Steel Fabrications' contract to supply fabricated steel to the Medupi and Kusile power stations proceeded to plan and is expected to continue until the second half of the 2015 financial year. Low levels of demand for infrastructure development and the depletion of work on hand impacted the business' financial performance and it is expected to continue into 2015.

Administration

Administration, which comprises concessions, corporate services, corporate held investments including properties, and consolidation eliminations, reflected an improved result for the current period.

The segment reported a net operating earnings of R186 million (before the impairment charge of R831 million) compared to net operating loss of R48 million in the comparative period. The improved performance is due to:

- R111 million net success fee earned on the Gouda renewable energy contract which reached financial close in July 2013, and lower contract development costs compared to the 2013 financial year;
- profit on the disposal of unused surplus land;
- mark-to-market loss on hedging instruments of R29 million;
- cost-saving initiatives; and
- a change in philosophy regarding the recovery of centralised administration costs to better reflect usage of the support services.

DIVIDEND DECLARATION

The Board has reviewed the current period's financial performance and as a result of the adverse cash flow associated with Australian contracts and losses at Aveng Grinaker-LTA, the Board has resolved not to declare a dividend. The Group will revert to its stated dividend policy in the medium term.

TWO-YEAR ORDER BOOK

The Group's two-year order book increased to R40,9 billion as at June 2014, an increase of 11% compared with the R36,7 billion two-year order book reported as at December 2013.

Commentary *(continued)*

Within the **Construction and Engineering: Australasia and Asia** segment, the two-year order book increased by 19% to R24,1 billion (from R20,3 billion in December 2013) and reflects the award of new contracts, particularly in the marine, civil, rail and transport-related sectors. Overseas construction, pipelines and electrical operations gained at the expense of Australia Construction, Tunnels and Building. Geographically, New Zealand and Southeast Asia gained at the expense of Australia. The evolution of the order book reflects progress made against the objective of diversifying beyond Australia into less commodity dependent sectors. Important contract awards in the second half of financial year include Webb-Dock, Brisbane Ferry Terminals, K2K Highway Upgrade and 4th Parallel Pipeline JV.

The **Construction and Engineering: South Africa and rest of Africa** segment's two-year order book decreased by 13% to R7,4 billion from R8,5 billion since December 2013. Oil and gas and infrastructure contracts gained at the expense of power and water contracts. Diversification of cross border activities resulted in an order book outside of South Africa of 9%. The amount of public sector work remains unchanged since December 2013. Significant contract awards in the second half of financial year included work for Sanral, Platreef Resources, Netcare, Engen and Aspen Pharmacare.

The combined order book of **Aveng Mining** increased by 21% to R8,6 billion from R7,1 billion in December 2013, with South Africa gaining significantly relative to non South African operations. Platinum, nickel and manganese related contracts gained at the expense of gold and coal, thus reducing the previously heavy dependency of gold contracts outside of South Africa. Aveng Moolmans accounts for 68% of the order book, up by 18% compared to December 2013, with 33% of work currently outside South Africa down from 47% in December 2013.

OUTLOOK AND PROSPECTS

Management has a clear plan to improve liquidity over the short term and is addressing the overall fixed cost base of the Group. The Group will continue to focus on improved operational performance with a specific focus on returns and cash generation.

With the slowdown in some of its traditional markets, the **Construction and Engineering: Australasia and Asia** segment continues with its strategy to diversify into non-mining opportunities in its traditional markets and regions outside Australia. McConnell Dowell aims to achieve increased profitable market share within the oil & gas and minerals & mining sectors. In addition to the aforementioned prospects, targets in the contract pipeline include transport infrastructure, hydro power, reticulation pipelines, and urban and major redevelopment infrastructure works. With a significant portion of its non-contributing revenue having reached completion, the segment is expected to generate an improved performance. The commercial resolution of the QCLNG and Gold Coast claims will remain a materially significant risk to the medium-term earnings of the segment and the Group.

Commentary *(continued)*

Within the **Construction and Engineering: South Africa and rest of Africa**, progress has been made in key focus areas intended to stabilise Aveng Grinaker-LTA, to address its critical challenges in underperforming contracts and return it to sustainable profitability. Although the early stages of the business turnaround are evident, the focus remains firmly on improving contract execution and commercial management, while aligning the fixed cost structure with revenue. In combination with achieving commercial resolution to loss making contracts and the working out of non contributing contracts in the revenue stream, the business will continue to focus on its recovery process. Prospective pipeline targets are healthcare, retail, rail infrastructure, interchange-focused road works, water and renewable energy.

It is anticipated that investment in the Mining industry will remain constrained until the 2016 financial year, and the lead times to secure new contracts will continue to be lengthy. The cost pressures faced by mining companies will maintain pressure on contractor's profit margins. In this environment, **Aveng Moolmans and Aveng Mining Shafts & Underground** will both focus on improving internal operational efficiencies and mitigating risk by securing contracts of a longer duration in support of an improved financial performance.

Aveng Manufacturing enters the 2015 financial year with strong prospects in a difficult market. Railway development remains a key growth market and Aveng Manufacturing will continue to construct, supply concrete products and pursue additional rail maintenance work for the major railway contracts underway in Mozambique, Zambia and South Africa during 2015.

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

Aveng Trident Steel will continue to focus on diversifying its revenues and strengthening its profit margins by increasing its branch network in South Africa, targeting higher value added products and maintaining its focus on operational efficiency improvements. **Aveng Steeledale** will focus on strengthening its distribution network and preserving a lower cost base. The business will benefit from an increase in infrastructure investment. **Aveng Steel Fabrication** will focus on boosting its operations and achieving sustainability by reducing costs, securing more work and improving profitability.

All operations within the **Aveng Group** will focus on optimisation and efficiency initiatives focusing on the efficacy and cost competitiveness of the fixed cost base.

Commentary *(continued)*

In summary, while the Group expects the underlying performance of the business to improve in the 2015 financial year, the resolution of the claims will remain a material risk to earnings.

By order of the Board

AWB Band
(Chairman)

HJ Verster
(Chief Executive Officer, and acting Group Financial Director)

26 August 2014
Morningside, Sandton

Directors
AWB Band*# (Chairman), P Erasmus*#,
MA Hermanus*#, MJ Kilbride*#,
JJA Mashaba (Group Executive Director),
TM Mokgosi-Mwantembe*#, DG Robinson^,
E Diack*#, MI Seedat*#, K Mzondeki*#,
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