Providing a better life

Audited consolidated annual financial statements **for the year ended 30 June 2020**

Adelaide Oval Hotel - Australia

Contents

The reports and statements set out below comprise the consolidated annual financial statements presented to the shareholders:

General Information

Country of incorporation and domicile	South Africa	
Directors	Mr Philip Hourquebie (Independent non-executive chairman)	Resigned from the audit and risk committee effective 17 June 2020 Appointed as non-executive chair and chair of the investment committee effective 17 June 2020
	Mr Eric Diack (former executive chairman)	Resigned as executive chair on 30 April 2020, continued as non-executive chair. Resigned as a director effective 12 June 2020
	Mr Sean Flanagan (Group chief executive officer)	
	Mr Adrian Macartney (Group finance director)	
	Ms May Hermanus (Lead independent director)	
	Ms Bridgette Modise	Appointed as a director effective 1 November 2019 Appointed as chair of the audit and risk committee and a member of the investment committee effective 17 June 2020
	Mr Michael Kilbride	
Auditors	Ernst & Young Incorporated	
Secretary	Ms Edinah Mandizha	
Company registration number	1944/018119/06	
Level of assurance	These consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008 (as amended) of South Africa.	
Supervised by	The audited consolidated annual financial statements were prepared by: Efstathios White CA(SA) under the supervision of: Adrian Macartney CA(SA), Group finance director	
Address of registered office	3rd Floor 10 The High Street Melrose Arch Johannesburg 2076	
Published	30 November 2020	

Audit and risk committee report

Change in composition of the audit and risk committee

The appointment of Mr Philip Hourquebie on 17 June 2020, as the independent non-executive chair required a change in the composition of the audit and risk committee. Mr Hourquebie stepped down as chair and member of the audit and risk committee. Ms Bridgette Modise was appointed as the chair to this committee on 17 June 2020. The standing members serving on this committee are Ms Bridgette Modise (chair), Ms May Hermanus and Mr Michael Kilbride.

Performance of duties

The audit and risk committee has been constituted in accordance with applicable legislation and regulations. The committee members are all independent non-executive directors of Aveng Limited. Four scheduled audit and risk committee meetings were held during the year, at which the members fulfilled their functions as prescribed by the Companies Act 71 of 2008 (as amended) of South Africa. The audit and risk committee confirm that it is satisfied with the independence of its external auditor, Ernst & Young Inc.

Mandatory audit firm rotation

The audit and risk committee had robust discussions regarding mandatory audit firm rotation. The process to appoint a new external audit firm will be put in place, including a process to monitor and evaluate the independence of potential auditors and specifically the limitations imposed by section 90(2) of the Companies Act. The committee acknowledges the need to rotate its auditors due to tenure. As the Group is in the final stages of a major turnaround, it concluded this is not the time to effect a change given the significant risks faced by the Group. The IRBA has mandated rotation by 01 July 2022. The committee is committed to rotation by that date at the least and is considering whether it may be pragmatic to do so a year earlier.

Evaluation of the finance director

In accordance with the Johannesburg Stock Exchange Limited (JSE) Listings Requirements, the audit and risk committee is required to consider the appropriateness of the expertise and experience of the Group finance director. In respect of this requirement and for the year under review, the committee is satisfied that Mr Adrian Macartney, the Group finance director, possesses the appropriate expertise and experience to fulfil his responsibilities in that position.

Statement on internal financial controls

Based on information from and discussions with management and the Group internal audit function, the audit and risk committee confirms that it has no reason to believe that there were any material breakdowns in the design or operating effectiveness of internal financial controls during the financial year under review which have not been addressed or are not in the process of being addressed. The financial records can therefore be relied on for preparation of the consolidated annual financial statements.

Liquidity and going concern

As included in the directors' report, and further detailed in *note 1: Presentation of consolidated financial statements* to the financial statements, in determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The directors have considered the agreements reached and transactions concluded post the year end, the actions taken by the Group, the financial plans and forecast, including all available information, and are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements.

This committee has interrogated the key assumptions used in determining the cash flow forecasts used in the going concern assessment, including the ongoing CTA discussions, the current status of the non-core assets, disposal plan, the operating cash flows of both core and non-core businesses and other initiatives already embarked on by the Group. The committee was satisfied that the assumptions are supportable. The committee was further satisfied with the post year end events, going concern and liquidity disclosures in the directors' report and within the notes to the financial statements.

Statement on internal control and risk management

The risk management function together with management, identifies and monitors potential risks faced by the Group and the risk mitigation strategies proposed and implemented by management. The internal audit functions monitor the effectiveness of internal control systems and make recommendations to management and the audit and risk committee. The board has concluded, based on the recommendations of the audit and risk committee and their own understanding, that there is no reason to believe that there were any material internal control or risk management shortcomings during the current financial year that have not been addressed or are in the process of being addressed.

B Modise
Chair
Audit and risk committee
28 November 2020

Certificate of the company secretary

I, the undersigned, Edinah Mandizha, in my capacity as company secretary, certify that:

- the Company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act 71 of 2008 (as amended) of South Africa; and
- all such returns are true, correct and up to date.

Edinah Mandizha
Company Secretary
28 November 2020

Directors' report continued

The directors submit their report for the year ended 30 June 2020.

1. Review of activities

Nature of business

The consolidated annual financial statements (results) comprise the financial results of Aveng Limited and its subsidiaries (the Group) at 30 June 2020. Aveng Limited (the Company) is a South African registered and listed company, included in the Construction and Materials – Heavy Construction sector of the Johannesburg Stock Exchange (JSE) (Listing reference: AEG) with interests in construction, contract mining and steel beneficiation. Primary subsidiaries include Aveng Africa Proprietary Limited and Aveng Australia Holdings Proprietary Limited.

Positioning for longer-term strategic goals

The Group will report improved financial results for the year ended 30 June 2020 on the back of good operational performance from McConnell Dowell and Moolmans. The first half of the financial year saw the Group restoring operational profitability with both core businesses generating profits and cash. During the second half, the COVID-19 pandemic resulted in lockdowns to various degrees in different sectors and jurisdictions, disrupting operational performance health across the Group and reducing operating profit by approximately R380 million in the second half of the year.

Despite the significant uncertainty and additional volatility created by the health and economic crisis experienced during the 2020 financial year, the Group continues to build resilience across the organisation and was buoyed by its key strategic levers of geographic diversification, improving operational performance and the firm commitment of leadership and employees.

Management remains committed to the execution of the strategy, implemented in 2018, with the following objectives implemented:

- Ensure a long-term capital structure
- Create liquidity by selling non-core assets
- Unlock value from core businesses.

The execution of the strategy continued to deliver positive results and we are confident that market opportunities and growth potential exists for McConnell Dowell and Moolmans. These core businesses remain profitable, cash generative and strategically well positioned to be sustainable in both the current COVID-19 environment and beyond. Diversification across customers, geographies, industry sectors and commodities provide risk mitigation in the current environment. These businesses offer long term sustainable earnings and generate sufficient cash flows. However, given the current circumstances, the Group's external environment remains unpredictable due to the COVID-19 pandemic.

COVID 19 pandemic

The unprecedented challenges of COVID-19 were dealt with effectively as the Group demonstrated its agility and resilience in response to the pandemic. The Group's diversity across customers, geographies, industry sectors and commodities provided risk mitigation and softened the impact on the overall business performance. Despite this risk mitigation, the COVID-19 pandemic created a liquidity shortfall during April and May 2020. This shortfall was managed through a short-term facility of R200 million by the Group's South African relationship banks which was repaid in August 2020 and the savings contributed by staff, management and the Board taking salary and wage cuts of approximately R168 million. The Board extends its thanks to all employees for this contribution in such exceptional circumstances.

The Group responded proactively to the restrictions and lockdowns by taking measures to protect its employees, operations and its financial position. Initiatives, including prudent cash management, working capital management and cost reductions were implemented across the Group. As a result of the restrictions and measures imposed, the Group's business units were severely impacted during the reporting period. Operations were restricted in South Africa, New Zealand and South-East Asia for varying lengths of time. Australian operations continued throughout the period.

Support from clients varied from compensation for costs incurred and time lost, to only allowing extensions of time for project delays resulting from COVID-19 restrictions and measures.

At the time of this report, the Group has estimated that COVID-19 negatively impacted its EBIT by approximately R380 million (unaudited).

Due to the uncertainty of the pandemic, and the response by governments and societies around the globe, it is expected that the commercial close-out of all COVID-19 related impacts will take some time to quantify.

The impact of COVID-19 on the various operations in the business platforms across the geographies has been detailed as part of the Group financial results section below.

Directors' report continued

1. Review of activities continued

Group financial results

Overall trading performance

McConnell Dowell

McConnell Dowell has built a reputation as being a highly technically skilled tier-two contractor with engineering in its DNA. The business unit was consistently profitable and continues to focus on specialised projects in Australia, New Zealand & Pacific Islands and South East Asia. The business improved its operational performance in the first half of the year by delivering a net operating earnings (EBIT) of AUD5,5 million in FY20 H1. Following the outbreak of the COVID-19 pandemic in the second half of the financial year and the responses by various governments in the Australasia region to impose restrictions and lockdowns, McConnell Dowell management responded quickly and proactively and took appropriate decisions to limit the impact of COVID-19.

Despite the effects of COVID-19 on its operations, MCD achieved an underlying operating profit of AUD6,0 million before impairments for the full year ending 30 June 2020.

The Board of McConnell Dowell was mindful of the emerging uncertainties of COVID-19 and took the decision to settle two long standing legacy claims with a view to enhancing the resilience of the underlying business by improving available liquidity at a time of greater uncertainty. These settlements assist this objective by releasing cash in the short term, reducing ongoing legal costs, removing litigation uncertainty and allowing management to focus on the growth objectives of McConnell Dowell. The resolution of these legacy claims is a significant achievement at a critical time and enhances cash flow and strengthens the Groups liquidity position.

The settlement of the two long-standing legacy claims, resulted in a cash inflow of AUD42.5 million and a non-cash claims write down of AUD19,5 million. This resulted in a reported EBIT of AUD 13million loss.

Work in hand grew by 60% to AUD1.8 billion at 30 June 2020, which supports 90% of budgeted revenue for FY21. The value of preferred tender status increased to AUD1,4 billion. The business remains focused on pursuing opportunities in its areas of specialisation and in which it has a proven track record of success.

Moolmans

The Moolmans performance for the year was impacted by COVID-19 related closures on all operations for the period from March to June 2020. Despite the impact of the COVID-19 related shut down, Moolmans reported an operating profit of R38 million for the year, representing a significant turnaround from the operating loss of R327 million in the previous financial year.

Moolmans responded immediately to the COVID-19 crisis by implementing a response plan across all operations in consultation with customers. The business focused on protecting the lives of employees while maintaining a responsible level of operational activity and service delivery.

All domestic mining operations ceased in March in line with lockdown stage 5 regulations and placed into care and maintenance. Moolmans rapidly demobilised 350 items of heavy earthmoving equipment and engaged with customers to plan the safe and efficient remobilisation of operations once the Lockdown was lifted. At the beginning of May, Moolmans commenced the remobilisation of all open cut operations, with the exception of Gamsberg and the Platreef underground operations which was at 50% of capacity. The business continued to progressively restore operational capacity during the remainder of the financial year. Standard operating procedures were implemented to increase personal safety at work and reduce the spread of infections.

The renegotiation and extension of contracts on more favourable terms, the substantial turnaround in the performance of a number of loss-making projects, the successful completion of the Platreef shaft sinking project and sound operational performance at the Klipspruit project all contributed positively. The underperformance on the Gamsberg contract has subsequently been addressed and detailed recovery plans implemented on the Tshipi and Kolomela projects.

Work in hand remained flat at R4,95 billion at 30 June 2020 and supports 81% of budgeted revenue of FY21.

Non-core operations

Aveng Construction: South Africa (formerly *Aveng Grinaker-LTA*) continued to wind-down and finalise the remaining contracts not sold as part of the disposals process. The remaining contracts contributed to a net operating loss of R174 million.

Aveng Manufacturing underperformed as the businesses continued to feel the impact of unfavorable market conditions in the infrastructure and mining sectors and the onset of COVID-19 during the second half of the financial year. Aveng completed the sale of DFC in the current financial year with various others completed post-year end, refer to note *49: Events after reporting period*. Aveng ACS delivered another profitable year.

Aveng Steel was impacted by COVID-19 and recommenced operations during stage four lockdown in a phased manner, that was aligned to the restart of the automotive and general steel industry.

Revenue decreased by 36% to R3,5 billion largely as a result of the decision to exit the merchanting business and monetise a significant part of the inventory, coupled with the effects of the COVID-19 lockdown. Selling prices per tonne were marginally higher than the previous year. Operating profit decreased to R14 million (2019: R39 million).

Directors' report continued

1. Review of activities continued

Group financial results continued

Overall trading performance continued

Group

The Group reported a reduced headline loss of R950 million or 4,9 cents per share for the year ended 30 June 2020, compared to a headline loss of R532 million or a loss of 9,7 cents per share in the prior year. Due to the COVID-19 government lockdown and the implementation of the strategic plan, revenue decreased by 19% to R20,9 billion (2019: R25,7 billion). The net operating loss improved to a loss of R532 million from a loss of R1,1 billion in June 2019. Weak trading conditions in the South African market, the impact of COVID-19 resulting in operational underperformance in domestic businesses and impairments of legacy claims in McConnell Dowell impacted the overall result. The poor performance was partially offset by an increased profitability in Moolmans.

The Group generated a basic loss attributable to equity holders of the parent of R1,1 billion (2019: R1,7 billion loss) after taking into account an impairment charge of R168 million (R132 million on PPE at Moolmans, R15 million on intangible assets and R21 million on equity accounted investments). Fair value adjustments on assets Held for Sale amounted to R13 million. Refer to *note 8: Impairments* and *note 20: Assets and liabilities classified as Held for Sale*.

Gain on the disposal of non-core assets

A R34 million gain on the disposal of subsidiaries and assets Held for Sale was recognised.

- Full details of the financial position and performance and changes therein for the Group are set out in the consolidated financial statements on pages 18 to 134.

Capital expenditure

Capital expenditure of R762 million for the year (2019: R721 million) related to R3 million (2019: R104 million) of expansion investment and R759 million (2019: R728 million) replacement investment in property, plant and equipment. Net book value of property, plant and equipment disposed amounted to R151 million (2019: R185 million).

Liquidity, solvency, ongoing funding, and the going concern assertion

The Group continues to actively manage the liquidity and cash flow in two distinct liquidity pools, namely McConnell Dowell and the South African liquidity pool. McConnell Dowell's liquidity benefited from the deliberate action to settle legacy claims, the receipt of advance payments and a growing order book. As a result, McConnell Dowell will report a strong cash balance with sufficient cash and liquidity to support the growing order book and the growth opportunities that this market continues to present. The strict lockdown regulations announced in South Africa and related loss of revenue negatively impacted a liquidity position that was already under pressure. As noted, this was mitigated through short term facilities that have subsequently been repaid and a significant contribution by our people. The South African liquidity pool remains tightly managed and has demonstrated significant improvement over the first quarter of FY 2021.

Management prepared a budget for the 2021 financial year and the following two years, as well as preparing cash flow forecasts covering a minimum of 12 months from the date of these financial statements. These forecasts have been prepared with the assistance of several independent external consultants and reviewed by management to ensure that they have been accurately compiled using appropriate assumptions. Notably, the preparation of budgets, plans and forecasts include consideration of the impact of the COVID-19 pandemic. This included management's responses to the effects thereof. Whilst management has taken action to address these effects, this pandemic continues to evolve and represents a risk to the achievement of these budgets, plans and forecasts. Management will continue to respond to the circumstances as these emerge. The budgets, plans and forecasts have, together with the assumptions used, been interrogated and approved by the Board.

The Group's current liabilities of R5,8 billion exceeded its current assets of R4,9 billion at 30 June 2020. This was mainly due to the classification of the short-term debt portion of R1,1 billion to current borrowings. Following the extension to the CTA concluded post year-end, this short-term portion will reduce.

Following a multi-year journey, the restructuring and recapitalisation transaction announced post year-end, will allow the Group to reset its capital structure, deleveraging the balance sheet by more than R1 billion, extending the Group's maturity profile to 3 years, and simultaneously materially improving the Group's South African liquidity pool. Following this transformational event, Aveng believes that the remaining debt is sustainable and the remaining balance is forecast to be repaid over the next three years. Importantly, this transaction not only provides Aveng the capital structure flexibility to complete its non-core asset sale program and to wind down its remaining exposure to discontinued businesses, but also sets the Group on a path to pursue its strategy around the Group's core businesses, McConnell Dowell and Moolmans, which have returned to profitability and where Aveng sees further business improvement prospects and growth opportunities.

The forecasts indicate that the Group will have sufficient cash resources for the foreseeable future. The core businesses are performing in line with the plan and are therefore expected to generate sufficient cash to repay the long-term debt. In addition, the Group's remaining non-core businesses' (particularly Trident Steel) are expected to generate sufficient cash from operations to contribute to available liquidity. The disposals of the remaining non-core assets are expected to be completed during the 2021 financial year and will contribute to the repayment of the debt and available liquidity.

The directors have considered all of the above up to the date of approval of these financial statements, including detailed consideration of the current position of all core and non-core businesses, all business plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements, and that sufficient liquidity will be available to support the ongoing operations of the Group and that the realisation of assets and the settlement of liabilities, including contingent liabilities and commitments, will occur in the ordinary course of business.

Directors' report continued

1. Review of activities continued

Balance sheet restructure and recapitalisation

Aveng has engaged with various stakeholders, including its South African lenders, the holders of notes issued through iNguza Investments (RF) Limited, its largest shareholder and others over the course of the 2020 calendar year. Following the year-end, the Company reached an agreement on a restructure that will result in the introduction of a minimum R300 million new capital, the restructure of the CTA debt package into a smaller restructured term and overdraft facility with a maturity of 3 years and the settlement of the balance thereof by way of a cash settlement or a specific issuance of new ordinary shares and the early settlement of the iNguza notes by way of a cash settlement at a discount or the participation in the restructured term debt. The agreements to give effect to the transaction were signed by the parties on 27 November 2020, including:

- The largest shareholder executing the recapitalisation term sheet including a commitment to fully underwrite a rights offering of new equity at 1.5 cents per share, up to R300 million;
- the South African lenders executing the recapitalisation term sheet, including the restructured debt and the settlement of R570 million by way of an issue of shares at 5 cents per share or the cash settlement of 31 cents for every R1 held;
- the holders of the requisite majority of iNguza notes executing irrevocable letters of undertaking in support of early redemption of the iNguza notes by way of a cash settlement of 31 cents for every R1 held or participation in the South African lenders restructured debt; and
- SA lenders executing an extension letter to extend its existing CTA facilities to 30 June 2022. It is expected that this agreement will be superseded by the restructured term and overdraft facilities described above.

Achieved during the period

- Arranged two additional short-term working capital facilities of R200 million each with the South African Banking Group to address a seasonal low point in the Group's cash flow that was exacerbated by specific unanticipated market events surrounding the COVID-19 pandemic, including timing delays of non-core asset sales in the latter part of the 2020 financial year, of which R200 million was repaid on 31 August 2020;
- A permanent cashflow contribution of R168 million (unaudited) from Aveng directors, employees and management in South Africa by way of salary cuts in response to COVID-19 between April and June 2020; and
- McConnell Dowell implemented salary reductions for all management and staff above a particular pay scale and not directly employed on project sites which remained open as a response to COVID-19.

Execution of plans

- Continued improvement in the operating performance and therefore underlying value and sustainability of both McConnell Dowell and Moolmans;
- Progress on the non-core asset disposal plan, including:
  - The receipt of proceeds of R226 million in the 2020 financial year, including, *Aveng DFC* of R114 million, *Aveng Construction Building and Civil Engineering* of R3 million, *Aveng Grinaker-LTA Mechanical and Electrical* for R72 million and a R37 million payment for *Aveng Construction Rand Roads*;
  - Subsequent to year end, disposals were concluded in respect of GEL, Duraset, REHM Grinaker, Infraset Pietermaritzburg and various properties totalling R54 million;
  - The restructure of Aveng Trident Steel to focus on the value-added service centre business, thereby improving profitability and allowing the Group to monetise a significant part of the inventory and reduce working capital; and
  - Other disposals are at varying stages of execution.
- updated budget and business plans for post-year end period up to 30 June 2022 for the Group, incorporating the benefits already realised and expected from actions taken, as well as future benefits from improved liquidity to be achieved
- sensitivity testing of key inputs included in the operating and liquidity forecasts to ascertain the effect of non-achievement of one or more of the key inputs (operational performance of core assets, non-core asset disposal timing), including any effect on the ongoing compliance with covenant requirements in place with the South African lending banks, Australian banks or other financing agreements within the individual liquidity pools; and
- the South African short-term liquidity forecast management process continues to be executed and monitored in all the South African operations.

In the 2020 financial year, the Group reported a loss after tax of R1,1 billion, inclusive of R147 million of impairments. As a result of these losses, the continued difficult trading conditions in South Africa and the impact of COVID-19 on the operations (discussed below), the Group's available cash resources were negatively impacted. The Group continues to focus on improving operational performance, reducing overhead and improving working capital efficiencies. To this end, a number of Group initiatives have been concluded or are in progress.

The Group has cash (net of bank overdraft facilities) of R1.3 billion (30 June 2019: R1.6 billion) at 30 June 2020, of which R429 million (30 June 2019: R624 million) is held in joint arrangements. Unutilised facilities (includes bank overdraft facilities of R605 million) amounted to R483 million (30 June 2019: R302 million).

The directors have considered all of the above, including detailed consideration of the current position of all core and non-core businesses, all business plans and forecasts, including all available information, outcome of the Aveng Australia Holdings Group and Aveng Africa Group going concern reviews and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements, and that sufficient liquidity will be available to support the ongoing operations of the Group.

For further information on all of the disclosures included above, refer to *note 5: Going concern and note 49: Events after the reporting period liquidity* in the financial statements.

Directors' report continued

1. Review of activities continued

Unconsolidated structured entities

The Group has the following structured entities which are not consolidated:

Community Investment Trust

The trust makes donations to public benefit organisations involved in technical and business education as well as job creation initiatives aligned to the broader building and construction industry.

2. Events after the reporting period

In addition to the items discussed under liquidity and solvency, refer to *note 49: Events after the reporting period and pending transactions*.

3. Stated capital

Details pertaining to the authorised and issued share capital of the Company at 30 June 2020 are contained in *note 21: Stated Capital of the consolidated annual financial statements*.

4. Directors

In terms of the Company's memorandum of incorporation, the directors listed below will retire by rotation at the forthcoming annual general meeting (AGM) and will be eligible for re-election:

- Mr. Adrian Macartney
- Ms. May Hermanus*

* *It should be noted that in terms of King IV, an independent director who has served on the Board for nine years should be subjected to a rigorous review of his/her independence and performance. Ms. May Hermanus has served on the Board for nine years, and in giving effect to the above, Ms. Hermanus completed the independence evaluation test which was assessed by the remuneration and nomination committee and recommended to the Board. Based on the review, the Board concluded that Ms. Hermanus is still independent*.

The following changes were made to the Board to the date of this report:

- Mr. Eric Diack– Resigned as executive chair on 30 April 2020, continued as non-executive chair. Resigned as a director effective 12 June 2020
- Mr. Philip Hourquebie – resigned as Chair of the Audit and Risk Committee effective 17 June 2020, and appointed as independent non-executive Chairman and Chairman of the Investment Committee effective 17 June 2020
- Ms. Bridgette Modise – appointed as a director effective 1 November 2019, and appointed as Chair of the Audit and Risk Committee and a member of the Investment Committee effective 17 June 2020

Details of the directors' remuneration and interests are set out in *note 46: Directors' emoluments and interests of the consolidated annual financial statements*.

One of the key principles in King IV is the establishment of a unitary Board which reflects a balance of power. In order to ensure that no one individual, or group of individuals yield unfettered power on the Board, King IV proposes the appointment of independent non-executive directors. It should be noted upfront that all directors, regardless of the classification as an executive, non-executive or independent non-executive director, require the application of an independent state of mind and objective judgement. In essence, all directors are required to act in the best interests of the Company at all times and this can only be achieved if directors set aside their personal interests.

5. Auditor

Ernst & Young Inc. continued in office as the external auditor of the Group. At the AGM shareholders will be requested to appoint Ernst & Young Inc. as the Group's auditor for the 2021 financial year.

6. Shareholders

The following information is available on 30 November 2020 on the Group's website:

- Shareholders' diary.

7. Directors' responsibility relating to the consolidated and separate annual financial statements

The directors of the Company are responsible for maintaining adequate accounting records and are responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated annual financial statements fairly present the state of affairs of the Group and Company as at the end of the financial year and the results of its operations and cash flows for the year ended 30 June 2020.

After due, careful and proper consideration, the directors acknowledge that the consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), the IFRIC interpretations as issued by the International Financial Reporting Interpretations Committee, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act 71 of 2008 (as amended) of South Africa, and the Listings Requirements of the JSE Limited.

Directors' report continued

7. Directors' responsibility relating to the consolidated and separate annual financial statements continued

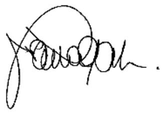
The directors acknowledge that they are responsible for the system of internal financial control established by the Group and Company and place considerable importance on maintaining a strong control environment. These controls are designed to provide reasonable, but not absolute assurance, as to the reliability of financial records and the consolidated annual financial statements, to adequately safeguard, verify and maintain accountability of assets and to prevent and detect material misstatements and losses. To enable the directors to meet these responsibilities, the Board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework; effective accounting procedures; and adequate segregation of duties which are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board has reviewed the Group's cash flow forecast for the year ended 30 June 2020 and in light of this review and the current financial position, is satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future and accordingly the consolidated annual financial statements are prepared on a going concern basis.

The external auditor is responsible for reporting on the Group's and Company's consolidated annual consolidated and separate financial statements. Its unmodified report to the shareholders of the Group and Company is set out on pages 12 to 17.

Approval of consolidated annual financial statements

The consolidated annual financial statements of the Group for the year ended 30 June 2020 set out on pages 18 to 134, which have been prepared on the going concern basis, were approved by the Board of directors on 28 November 2020 and were signed on its behalf by:



SJ Flanagan
Group Chief Executive Officer

AH Macartney
Group Finance Director

Independent auditor's report

to the shareholders of Aveng Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Aveng Limited and its subsidiaries ('the group') and company set out on pages 18 to 134, which comprise of the consolidated and separate statements of financial position as at 30 June 2020, and the consolidated and separate statements of comprehensive earnings, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 30 June 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated and separate financial statements section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors ('IRBA Code') and other independence requirements applicable to performing audits of financial statements of the group and company and in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits of the group and company and in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

The key audit matters apply to the audit of the consolidated and separate financial statements. The first key audit matter relates to both the consolidated and separate financial statements whilst the other key audit matters relate only to the consolidated financial statements.

Independent auditor's report

to the shareholders of Aveng Limited

Assessment of key audit matters	How the matter was addressed in the audit

1. Liquidity, solvency, ongoing funding from SA Lenders, restructuring and evaluation of the effect on the assessment of the going concern performed by management

The Group entered into a restructuring plan with the SA Lenders and certain shareholders after the reporting period. This restructuring plan is fundamental to the going concern assumption as it results in the recapitalisation of Aveng Limited, reduced debt and the provision of ongoing funding from the SA Lenders into the foreseeable future. These are significant aspects of our audit as it forms part of our assessment whether the Group and Company is able to meet its obligations under its financing agreements.

There were significant events which took place both during and after the reporting period which have an impact on the liquidity and consequently the going concern assessment of the Group and Company. These events include:

- Realisation of proceeds from disposals of assets and businesses deemed to be non-core to the Group and execution of binding terms sheets with purchasers for other non-core assets and businesses;
- Negotiation of additional short-term working capital facilities of R200 million with the SA lenders to address a seasonal low point in the Group's cash flow that was exacerbated by specific market events in and timing delays with non-core asset sales and the unanticipated COVID-19 pandemic, in the latter part of the 2020 financial year.
- Entering into a restructure plan with certain shareholders and the SA Lenders which will result in Aveng Limited being recapitalised.

In order to achieve the recapitalisation, the Group required that:

- Highbridge and the SA lenders execute the irrevocable recapitalisation term sheet whereby the holder of the requisite majority of iNguza notes and Highbridge execute irrevocable letters of undertaking in support of early redemption of the iNguza notes at a discount to fair value or through participation of the equitization described below.
- SA lenders execute an irrevocable extension letter which defers payments due on 30 June 2022 on the following facilities:
    - All capital payments under Super Senior Liquidity facility 1, the Term facility; and
    - Revolving facility which was originally due on 31 August 2020.

The deferral of the payments of the facilities was agreed upon on the basis that the Group, SA Lenders and Highbridge have signed a credit approved irrevocable term sheet agreeing to the following:

- The Group undertakes a rights-offer at 1,5 cents per share in amount not less than R300 million, fully underwritten by Highbridge;
- A debt to equity conversion by the SA Lenders of 39,5 % of the total outstanding debt at the time of conversion at not less than 5 cents per share; and
- Early redemption of the notes-funder under the iNguza facilities for settlement either
    - In cash at 31 cents for each rand of the outstanding debt funded from cash or the rights issue proceeds; or
    - Through a combination of a debt to equity conversion of 39.5 % of the total outstanding debt and a restructure of the balance into and as part of the restructured debt

Assessment of the above:

The impact on forecast liquidity and on the directors going concern assessment arising from these events both during and after the reporting period was considered to be a key audit matter. The events described above were considered to be interdependent and are collectively complex, requiring management to engage legal and financial experts to assist them in assessing the impact on the liquidity and solvency of the Group and Company.

The restructure plan agreed with the SA lenders post year-end is significant to our audit as it impacts the Group's and Company's forecast liquidity model and the Group and Company's ability to meet its obligations under the financing agreements.

Management included the restructure plan in the liquidity forecast model which was approved by the Board. This primarily related to the updated assumptions in respect of the timing and amount of the repayments to the SA Lenders and iNguza note holders at the reduced debt amount after taking the conversion of debt to equity into consideration, the revised timing of disposal of remaining non-core assets.

Our audit procedures included:

- Understanding the process management have followed to make their assessment regarding the going concern assumption.
- Evaluating the assumptions on which management's assessment of going concern is based.
- Evaluating management's plans for future actions including the disposal of the remaining non-core assets and their ability to realise the fair value less costs to sell as determined by the valuation process.
- Obtaining an understanding of the process and testing in place over the liquidity, compliance with the debt covenants and preparation of the cash flow forecast based on reasonable and supportable assumptions and inputs to the model used to estimate the future cash flows.
- Evaluating the appropriateness of the budget and forecast systems in place, including key sensitivity tests undertaken on primary inputs with a particular focus on the Aveng Mining budget and forecast. Aveng Mining is a core business in South Africa and is expected to generate cash from operations in order to meet future financial obligations as they fall due.
- Testing the reasonableness of the inputs and assumptions used in the cash flow forecast against historical performance, economic and industry indicators, publicly available information and the Group's strategic plans.
- Evaluating the key assumptions including those pertaining to revenue growth and the timing of significant payments in the cash flow forecast for the following financial year.
- Comparing prior period forecasts with historical results to assess the accuracy of managements forecasting abilities.
- Comparing the current period forecasts with results achieved to date.
- Reperforming the underlying calculations used in the Group's and Company's assessment of debt covenant compliance, the cash flow forecast and sensitivity testing of the inputs used.
- Inspecting whether the liquidity forecasting model is consistent with the approved budgets and forecasts and is consistent with the information used in the Cash Generating Unit (CGU) impairment assessments.
- Evaluating the assumptions made with respect to future initiatives, the results and the cash flows in order to assess the Group's and Company's ability to continue meeting its payment obligations and its obligations under the financing covenants in the year ahead.
- Evaluating the existence, adequacy and terms of borrowing facilities.
- Obtaining the signed irrevocable recapitalisation and equitization term sheets and signed extension letters that commit all parties to the ongoing funding of the Group into the foreseeable future.
- Inspecting the minutes of the Board meeting evidencing that the Directors have assessed the Companies Act requirements in relation to the solvency, liquidity and going concern of the Group and Company.

Independent auditor's report

to the shareholders of Aveng Limited

Assessment of key audit matters	How the matter was addressed in the audit
1. Liquidity, solvency, ongoing funding from SA Lenders, restructuring and evaluation of the effect on the assessment of the going concern performed by management continued	
The forecast liquidity model required evaluating the forecast operating free cash flows for the Group and Company, assessing post year end liquidity performance, updating the model for the impact of all known events at the time of conclusion, and performing sensitivity testing on the model before approval by the Board. The evaluation and conclusion process adopted by the Board are key aspects that support the going concern assertion. Specific auditor attention was required to assess whether the judgements and assumptions applied by management were reasonable and supported by evidence or are based on future events with different degrees of probability. In particular the primary areas of audit focus in terms of the forecasted liquidity model related to: a) the cash flows from operations both core and non-core, b) the timing and likelihood of success of the disposal of the remaining non-core assets and how this affects the outcome of "a" above; and c) how these interplay with the continued availability of the funding from the SA Lenders under the restructure plan. The Group and Company believes it has sufficient liquidity based on the available credit facilities disclosed in *note 22: Borrowings and other liabilities* and the expected liquidity to be generated from operations to meet its financial obligations as they fall due. Auditor attention was required to assess whether there was sufficient liquidity after applying certain sensitivities to the liquidity model in respect of the areas noted above. This included assessing the impact of reducing the Operational EBIT for core operations. Additional work was also done to assess whether all known facts and circumstances related to the restructure plan have been appropriately taken into consideration in the liquidity model, and whether the evaluation of the overall liquidity headroom was appropriate after considering the ability of the Group and Company to meet forecasts based on prior history. As a result of potential uncertain future events there were a number of scenarios to take into account which resulted in additional auditor focus.	• Inspecting the signed sale agreements for the assets and businesses sold during and after the reporting period, including tracing the receipt of proceeds into the bank accounts, and consequential transfer of funds to the SA Lenders in terms of the CTA. • Inspecting the disposal plan approved by the Directors and assessing management's ability to dispose of the remaining non-core assets within the time frame indicated and at the values determined through the valuation process. • Inspecting the non-binding offers available for the remaining assets and businesses both at and post the reporting period. • Inspecting correspondence from interested parties to validate the status of the disposal process for other assets and businesses. • Assessing the adequacy of the disclosure in the financial statements. Refer to page 52 (Note 5: Going Concern and Liquidity) and page 115 (Note 49: Events after the reporting period.)
2. Accounting for contracts and the recoverability of uncertified claims and variations	
Included in the Group's revenue R20.8m (2019: 25.6m) is R12.2m (2019: 14.1m) which comprises revenue from long term contracts in the construction, engineering and mining operating segments. The Group has significant long-term contracts in the construction, engineering and mining operating segments. The construction, engineering and mining industries are characterised by contract risk with significant judgements involved in the assessment of the anticipated final contract outcomes. Changes in any of the significant judgements could result in a material variance in the amount of earnings or losses recognised from individual contracts. During the year new contracts are entered into, contracts are completed, and the progress made on existing contracts has changed from the prior year, we are therefore required to reassess the contracts at year end. As a result, accounting for contracts is considered to be an ongoing key audit matter. Contract accounting is considered to be an ongoing significant audit risk to the Group as it requires management to exercise a high degree of estimation and judgement in their assessment of the revenue recognition resulting from the contract stage of completion, contract variations and claims; the completeness and accuracy of forecast costs to complete; and the ability to deliver contracts within the requirements of each contract. Furthermore, the Group executes contracts in numerous geographic and operational markets which adds to the complexity of applying judgement.	Our audit procedures were focused on a selection of contracts using a variety of quantitative and qualitative factors in selecting which contracts to test. The most significant factors included high value contracts, significant loss-making contracts and contracts with significant claims. In this way our audit was focussed on assessing and evaluating the most significant and more complex contract positions. For each of the contracts selected, our procedures included the following: • Discussing and assessing the status of selected contracts with management, finance, and project and engineering staff. • We also performed audit procedures to test that: - The expected revenue used in the percentage of completion calculation has been reconciled to signed contracts and variation orders; and - The appropriate cost categories have been included in work in progress and that variation orders and claims have been properly considered when determining the valuation of work in progress; and the resulting estimated cumulative result on contracts.

Independent auditor's report

to the shareholders of Aveng Limited

Assessment of key audit matters	How the matter was addressed in the audit

2. Accounting for contracts and the recoverability of uncertified claims and variations continued

Management has also considered this area to be a key accounting estimate as disclosed in the 'accounting estimates and management judgements' note to the financial statements.

Included in the Group's receivable balance due from contract customers of R2 531m (2019: R2 621m) is R652m (2019: R1 031m) which comprises revenue not yet certified, amounts due from customers, and amounts that are currently subject to protracted legal or arbitration proceedings.

The valuation of uncertified claims and variations within receivables are significant to the financial statements based on the quantitative materiality and the degree of management judgement required for valuation.

Since the ultimate outcome of asserted claims and proceedings cannot be predicted with certainty, an adverse outcome could have a material adverse effect on the financial position and results of the Group, including debt covenant compliance; resulting in the identification of a significant financial statement risk. The accounting for these claims and proceedings is complex and highly judgemental, and the amounts involved are material to the financial statements as a whole.

The status of the various outstanding claims and projected performance was assessed in the context of current performance of the business, the current business environment and expected market conditions considering the impact of COVID-19.

The decision as to whether the long outstanding uncertified revenue amounts are recoverable required management judgement due to the complex nature of the claims. The facts and circumstances surrounding the long outstanding uncertified revenue amounts changes every year as a result of new information from clients, settlement discussions and the outcome of legal proceedings.

As a result, the recoverability of uncertified claims and variations is considered to be an on-going key audit matter.

The following judgments and considerations were made by management in determining whether the current year uncertified claims and variations are reasonable:

- The current stage of negotiation and / or legal proceedings on the larger uncertified claims including consideration of the external legal advice on these claims.
- The increasing complexity of the claims and the associated commercial challenges as well as the costly process in bringing long-outstanding claims to commercial conclusion.
- The increasing limitations the process has placed on management's ability to balance the value of commercial settlements with the associated costs, business disruptions, client relationships and impact on the Group's reputation.

Specific auditor attention was required to assess whether the judgements and considerations made by management, which are listed above, were appropriately and consistently applied.

- With respect to revenue recognised for variable considerations on construction contracts, including claims and variation orders:
  - We inspected supporting documents in order to test that such revenue was recognised only when the requirements of IFRS 15 and the Group's accounting policy have been met, namely when it is highly probable that no significant reversal will take place in a subsequent period
  - Where applicable, we also inspected correspondence with customers concerning variation orders and claims and obtained third-party assessments from legal counsel contracted by the group in order to assess whether the information was consistent with the estimates made by management.
- Engaged our own internal engineer to assist in assessing management's assumptions relating to the expected costs to complete. Our internal engineer would also consider supporting documentation such as customer certifications, forecast models and comparing previous cost estimates against actual results and examining variation and claim agreements.
- Inspected the contracts for key clauses, identifying relevant contractual mechanisms such as liquidated damages and success fees and considered their impact on the completeness and existence of the amounts recognised in the financial statements.
- We tested the sensitivity of all inputs and estimates by primarily comparing these to industry benchmarks and peer group analysis.

In response to the risks associated with the recoverability of uncertified claims and variations, our audit procedures included, amongst others:

- Enquiries with internal and external legal counsel, financial staff and directors in respect of ongoing claims and proceedings.
- We performed procedures to test the judgements on the expected settlement and corroborated explanations through inspection of correspondence, claims lodged against customers and evaluating the historic success rate in estimating the outcome of claims.
- Meeting with external legal counsel and internal commercial advisors and assessing their estimates of likely outcomes to that recognised in the accounting records of the Group by the financial accountants. Furthermore, we obtained confirmations from the client's external legal counsel opining on the probable outcome of the claims and their best estimates of the quantum of the claims.
- Inspecting the minutes of relevant board meetings.
- Evaluating the adequacy of the financial statement disclosures regarding these claims and legal proceedings.
- Assessing the assumptions, judgements and considerations used by management in determining which long outstanding claims will be written off to determine that a consistent approach was adopted and that the revised project positions are reasonable and fairly stated.

Refer to pages 30 to 32 (accounting policy 2.12), page 45 (significant accounting judgements and estimates 3.1.11), page 88 (note 29: Revenue) and (Statement of changes in equity).

Independent auditor’s report

to the shareholders of Aveng Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the 134-page document titled “Aveng Limited Audited consolidated annual financial statements 2020”, which includes the Audit and risk committee report, certificate of the company secretary as required by the Companies Act of South and the Directors’ Report, which we obtained prior to the date of this report, and the Integrated report, which is expected to be made available to us after that date. Other information does not include the consolidated or the separate financial statements and our auditor’s report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Independent auditor's report

to the shareholders of Aveng Limited

Auditor's responsibilities for the audit of the consolidated and separate financial statements continued

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Aveng Limited for 33 years.

Ernst & Young Inc.

Ernst & Young Inc

28 November 2020

Director: Allister Jon Carshagen

Chartered Accountant (SA)
Registered auditor

102 Rivonia Road
Sandton

Statement of financial position

as at 30 June 2020

	Notes	2020 Rm	2019 Rm
ASSETS			
Non-current assets			
Goodwill arising on consolidation	10	**100**	100
Intangible assets	11	**15**	39
Property, plant and equipment	9	**3 180**	2 814
Equity-accounted investments	12	**35**	45
Infrastructure investments	13	**259**	142
Derivative instruments	15	**1**	-
Deferred taxation	14	**813**	622
Long-term receivables		**43**	-
Amounts due from contract customers	16	**-**	462
		4 446	4 224
Current assets			
Inventories	18	**187**	214
Derivative instruments	15	**9**	-
Amounts due from contract customers	16	**2 531**	2 159
Trade and other receivables	17	**358**	194
Taxation receivable	41	**41**	43
Cash and bank balances	19	**1 755**	1 605
		4 881	4 215
Assets Held for Sale	20	**2 309**	3 843
TOTAL ASSETS		**11 636**	12 282
EQUITY AND LIABILITIES			
Equity			
Stated capital	21	**3 874**	3 874
Other reserves		**1 102**	781
Accumulated losses		**(3 143)**	(2 208)
Equity attributable to equity-holders of parent		**1 833**	2 447
Non-controlling interest		**7**	7
TOTAL EQUITY		**1 840**	2 454
Liabilities			
Non-current liabilities			
Deferred taxation	14	**166**	86
Borrowings and other liabilities	22	**1 313**	1 450
Payables other than contract-related	23	**104**	115
Employee-related payables	25	**330**	245
		1 913	1 896
Current liabilities			
Amounts due to contract customers	16	**1 290**	813
Borrowings and other liabilities	22	**1 067**	695
Payables other than contract-related	23	**44**	21
Employee-related payables	25	**243**	283
Derivative instruments	15	**-**	1
Trade and other payables	24	**2 764**	2 683
Bank overdrafts	19	**424**	-
		5 832	4 496
Liabilities Held for Sale	20	**2 051**	3 436
TOTAL LIABILITIES		**9 796**	9 828
TOTAL EQUITY AND LIABILITIES		**11 636**	12 282

Statement of comprehensive earnings

for the year ended 30 June 2020

	Notes	2020 Rm	2019 Rm
Revenue	29	**20 878**	25 676
Continuing operations		**14 185**	13 548
Discontinued operations	6	**6 693**	12 128
Cost of sales	30	**(19 907)**	(24 628)
Continuing operations		**(13 305)**	(12 764)
Discontinued operations	6	**(6 602)**	(11 864)
Gross earnings		**971**	1 048
Other earnings	31	**163**	110
Continuing operations		**37**	(8)
Discontinued operations	6	**126**	118
Operating expenses	32	**(1 647)**	(2 247)
Continuing operations		**(1 217)**	(1 331)
Discontinued operations	6	**(430)**	(916)
Loss from equity-accounted investments	12/6	**(19)**	(30)
Operating loss		**(532)**	(1 119)
Impairment loss on goodwill, intangible assets and property, plant & equipment	8/6	**(147)**	(241)
Impairment on equity-accounted investments	12	**(21)**	-
Gain on redemption of convertible bonds		**-**	102
Gain on disposal of assets Held for Sale		**24**	203
Gain on disposal of subsidiaries	33/6	**10**	41
Gain on disposal of property, plant & equipment and intangible assets		**61**	36
Fair value adjustment on properties and disposal groups classified as Held for Sale	20/6	**(13)**	(51)
Loss before financing transactions		**(618)**	(1 029)
Interest earned on bank balances *		**32**	181
Interest on convertible bonds	22	**-**	(63)
Other finance expenses	34/6	**(461)**	(524)
Loss before taxation		**(1 047)**	(1 435)
Taxation	35/6	**(69)**	(245)
Loss for the period		**(1 116)**	(1 680)
Loss from continuing operations		**(825)**	(927)
Loss from discontinued operations	6	**(291)**	(753)
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		**318**	(73)
Convertible Bond Reserve movement		**-**	20
Other comprehensive earnings / (loss) for the period, net of taxation		**318**	(53)
Total comprehensive loss for the period		**(798)**	(1 733)
Total comprehensive loss for the period attributable to:			
Equity-holders of the parent		**(798)**	(1 731)
Non-controlling interest		**-**	(2)
		(798)	(1 733)
Loss for the period attributable to:			
Equity-holders of the parent		**(1 119)**	(1 681)
Non-controlling interest		**3**	1
		(1 116)	(1 680)
Other comprehensive earnings / (loss) for the period, net of taxation			
Equity-holders of the parent		**321**	(50)
Non-controlling interest		**(3)**	(3)
		318	(53)

* *Interest earned on bank balances is calculated using an effective interest rate.*

Statement of comprehensive earnings continued

for the year ended 30 June 2020

	Notes	2020 Rm	2019 Rm
Results per share (cents)			
From continuing and discontinued operations			
Loss - basic	36	**(5,8)**	(10,5)
Loss - diluted	36	**(5,8)**	(10,5)
From continuing operations			
Loss - basic	36	**(4,3)**	(5,8)
Loss - diluted	36	**(4,3)**	(5,8)
From discontinued operations			
Loss - basic	6/36	**(1,5)**	(4,7)
Loss - diluted	6/36	**(1,5)**	(4,7)
Number of shares (millions)*			
In issue	36	**19 394,5**	19 394,5
Weighted average	36	**19 369,6**	15 995,5
Diluted weighted average	36	**19 369,6**	15 995,5

The continuing and discontinued operations net operating loss before interest, depreciation and amortisation for the Group, being net operating loss before interest, tax, depreciation and amortisation is R362 million. The net operating loss before interest, tax, depreciation and amortisation for the Group in June 2019 was R369 million.

* As discussed in *note 21: Stated Capital, the Group undertook a rights offer on 4 July 2018, whereby the total number of rights offer shares subscribed for and excess allocations applied for was 4 931 854 395 rights offer shares. Further to this, the Group redeemed an existing convertible bond on 25 September 2018 through a specific issue of ordinary shares amounting to 14 045 972 894 shares.*

Statement of changes in equity

for the year ended 30 June 2020

	Stated capital Rm	Foreign currency translation reserve Rm	Equity-settled share-based payment reserve Rm	Convertible bond equity reserve Rm	Total other reserves Rm	Retained earnings / (Accumulated losses) Rm	Total attributable to equity-holders of the parent Rm	Non-controlling interest Rm	Total equity Rm
Year ended 30 June 2019									
Balance at 1 July 2018 as previously reported	2 009	811	39	268	1 118	(542)	2 585	9	2 594
Adoption of *IFRS 9* accounting standard*	-	-	-	-	-	(6)	(6)	-	(6)
Adoption of *IFRS 15* accounting standard**	-	-	-	-	-	(267)	(267)	-	(267)
Balance at 1 July 2018	2 009	811	39	268	1 118	(815)	2 312	9	2 321
(Loss) / earnings for the period	-	-	-	-	-	(1 681)	(1 681)	1	(1 680)
Other comprehensive loss for the period (net of taxation)	-	(70)	-	20	(50)	-	(50)	(3)	(53)
Total comprehensive loss for the period	-	(70)	-	20	(50)	(1 681)	(1 731)	(2)	(1 733)
Equity-settled share-based payment charge	-	-	1	-	1	-	1	-	1
Redemption of convertible bond	-	-	-	(288)	(288)	288	-	-	-
Share Issue - Rights to qualifying shareholders (4 July 2018)	461	-	-	-	-	-	461	-	461
Share Issue - Early redemption convertible bond (25 September 2018)	1 404	-	-	-	-	-	1 404	-	1 404
Balance as at 30 June 2019	3 874	741	40	-	781	(2 208)	2 447	7	2 454
Year ended 30 June 2020									
Balance as at 30 June 2019 as previously reported	**3 874**	**741**	**40**	**-**	**781**	**(2 208)**	**2 447**	**7**	**2 454**
Adoption of *IFRS 16* accounting standard***	**-**	**-**	**-**	**-**	**-**	**184**	**184**	**-**	**184**
Balance at 1 July 2019	**3 874**	**741**	**40**	**-**	**781**	**(2 024)**	**2 631**	**7**	**2 638**
(Loss) / earnings for the period	**-**	**-**	**-**	**-**	**-**	**(1 119)**	**(1 119)**	**3**	**(1 116)**
Other comprehensive loss for the period (net of taxation)	**-**	**321**	**-**	**-**	**321**	**-**	**321**	**(3)**	**318**
Total comprehensive loss for the period	**-**	**321**	**-**	**-**	**321**	**(1 119)**	**(798)**	**-**	**(798)**
Balance at 30 June 2020	**3 874**	**1 062**	**40**	**-**	**1 102**	**(3 143)**	**1 833**	**7**	**1 840**
Note	21		26						

* *The adoption of the expected credit loss model under IFRS 9 has impacted the prior year accumulated losses opening balance by R6 million. Prior year balances have not been amended as detailed in note 2: Accounting Policies (Refer to section 2.16.1 Financial assets).*

** *The adoption of IFRS 15 has impacted the prior year accumulated losses opening balance by R267 million. Refer to the effect on disclosure in note 2.24: Impact of adopting new standards on the statement of financial position and statement of changes in equity.*

*** *The adoption of IFRS 16 has reduced the accumulated losses opening balance by R184 million. Prior year balances have not been restated as detailed in in note 2.24: Impact of adopting new standards on the statement of financial position and statement of changes in equity.*

Statement of cash flows

for the year ended 30 June 2020

	Notes	2020 Rm	2019 Rm
Operating activities			
Cash utilised from operations	37	**(624)**	(1 002)
Non-cash and other movements	38	**110**	(8)
Cash utilised from operations after non-cash movements		**(514)**	(1 010)
Depreciation	9	**885**	742
Amortisation	11	**9**	8
Cash generated / (utilised) by operations		**380**	(260)
Changes in working capital:			
Decrease in inventories		**28**	41
(Increase) / decrease in amounts due from contract customers		**(57)**	420
Increase in trade and other receivables		**(85)**	(18)
Increase / (decrease) in amounts due to contract customers		**449**	(327)
Decrease in trade and other payables		**(160)**	(274)
Decrease in derivative instruments		**(11)**	(4)
Increase / (decrease) in payables other than contract-related		**12**	(21)
Increase in employee-related payables		**87**	24
Increase / (decrease) in working capital Held for Sale		**103**	(161)
Total changes in working capital		**366**	(320)
Cash generated / (utilised) by operating activities		**746**	(580)
Finance expenses paid	39	**(449)**	(513)
Finance earnings received	40	**32**	181
Taxation paid	41	**(50)**	(90)
Cash inflow / (outflow) from operating activities		**279**	(1 002)
Acquisition of property, plant and equipment – expansion	9	**(3)**	(47)
Acquisition of property, plant and equipment – replacement	9	**(759)**	(674)
Proceeds on disposal of property, plant and equipment		**143**	97
Proceeds on disposal of assets Held for Sale		**110**	449
Proceeds on disposal of subsidiaries	33	**116**	61
Investments in Associate and Joint Ventures		**-**	2
Capital expenditure net of proceeds on disposal		**(393)**	(112)
Loans repaid by equity-accounted investments net of dividends received		**-**	6
Dividends received	31	**25**	3
Movements in property, plant and equipment, intangible assets and investments classified as Held for Sale		**84**	102
Cash outflow from investing activities		**(284)**	(1)
Operating free cash outflow		**(5)**	(1 003)
Financing activities with equity-holders			
Proceeds from shares issued		**-**	1 866
Financing activities with debt-holders			
Repayment of external borrowings	42	**(390)**	(1 149)
Proceeds from external borrowings	42	**115**	1 935
Payment of capital portion of lease liabilities	42	**(158)**	-
Movement in borrowings and other liabilities classified as Held for Sale		**(57)**	(8)
Repayment on early redemption of convertible bond	42	**-**	(2 031)
Cash (outflow) / inflow from financing activities		**(490)**	613
Net decrease in cash and bank balances before foreign exchange movements		**(495)**	(390)
Foreign exchange movements on cash and bank balances		**221**	(81)
Cash and bank balances at the beginning of the period		**1 605**	2 076
Total cash and bank balances at the end of the period	19	**1 331**	1 605
Borrowings excluding bank overdrafts		**2 380**	2 145
Net debt position		**(1 049)**	(540)
Net debt position (excluding lease liabilities)		**(552)**	(540)

Accounting policies

for the year ended 30 June 2020

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of preparation

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

The consolidated financial statements are presented in South African Rand (ZAR) and all values are rounded to the nearest million (Rm) except when otherwise indicated. The accounting policies adopted are consistent with those of the previous year as well as the Group's interim results as at 31 December 2019 except for the new standards and interpretations disclosed in *note 4: Standards and interpretations effective and not yet effective.*

Assessment of significance or materiality of amounts disclosed in these consolidated financial statements

The Group presents amounts in these consolidated financial statements in accordance with *International Financial Reporting Standards* (*IFRS*). Only amounts that have a relevant and material impact on the consolidated financial statements 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.

Statement of compliance

The consolidated financial statements of Aveng Limited and its subsidiaries have been prepared on a going concern basis in accordance with the IFRS as issued by the International Accounting Standards Board (IASB), International Financial Reporting Interpretations committee (IFRIC), the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncement as issued by the Financial Reporting Standards Council, the Johannesburg Stock Exchange Limited (JSE) Listings Requirements, and the requirements of the Companies Act 71 of 2008 (as amended) of South Africa.

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2. ACCOUNTING POLICIES

2.1 Basis of consolidation

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects to measure the non-controlling interests in the acquiree at fair value of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument is measured at fair value with changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of *IFRS 9 Financial Instruments* (*IFRS 9*), it is measured in accordance with the appropriate International Financial Reporting Standard (IFRS). Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.1 Basis of consolidation continued

Common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the Group both before and after the combination. The Group accounts for these common control transactions using pooling of interest method. Any difference between the consideration paid and the capital of the acquiree is recognised in retained earnings.

Subsidiaries

The results of any subsidiaries acquired or disposed of during the year are included from the effective dates of acquisition and up to the effective dates of disposal respectively, being the dates on which the Group obtains or ceases to have control. Control is achieved when the Group has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Non-controlling interests (NCI)

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

The Group does not have subsidiaries that have a significant non-controlling interest and accordingly detailed non-controlling interest disclosure is not required in terms of *IFRS 12 Disclosure of Interests in Other Entities* in the current year.

Loss of control

If the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any gain or loss is recognised in earnings or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Equity-accounted investments

Equity-accounted investments consist of investments in associates and joint ventures.

Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of more than 20% of the voting rights.

Joint arrangements

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require unanimous consent of the parties sharing control. The Group's interest in joint arrangements are either classified as joint operations or joint ventures.

A joint operation is a joint arrangement whereby the Group has rights to the assets and obligations for the liabilities, relating to the joint arrangement. The joint operators have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangements require unanimous agreement for financial and operating decisions among the joint operators. The Group recognises its interest in a joint operation by recognising its interest in the assets and liabilities of the joint operation as well as its share in the expenses that it incurs and its share of the earnings that it earns from the sale of goods or services by the joint operation.

A joint venture is a joint arrangement whereby the Group has rights to the net assets of the arrangement.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the earnings or loss and other comprehensive earnings or loss of the associates and joint ventures, until the date significant influence or joint control ceases.

When the Group's share of losses in associates or joint ventures equals or exceeds its interest in that entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. The total carrying amount of associates and joint ventures is evaluated when there is an indication of impairment.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.1 Basis of consolidation continued

Equity-accounted investments continued

Joint arrangements *continued*

The Group's interests in associates and joint arrangements are considered individually immaterial based on their contribution to the Group and accordingly disclosures are aggregated separately for associates and joint arrangements based on their risk profiles and characteristics in relation to their activities and association to the Group.

Transactions eliminated on consolidation

When the end of the reporting period of a subsidiary, associate or joint venture is different to that of the Group, the subsidiary, associate or joint venture prepares, additional financial statements as at 30 June 2020 for consolidation purposes. When it is impractical for the subsidiary, associate or joint arrangement to prepare additional financial statements as at 30 June 2020, adjustments are made for the effects of significant transactions that occur between the subsidiary, associate or joint arrangement and the Group's reporting date.

Should a subsidiary, associate or joint arrangement apply accounting policies that are materially different to those adopted by the Group, adjustments are made to the consolidated financial statements to align the accounting policies.

All inter-group transactions and balances are eliminated on consolidation. Unrealised earnings or losses are also eliminated, unless it reflects impairment in the assets so disposed.

2.2 Foreign currency transactions and balances

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

Transactions denominated in foreign currencies are initially translated at the rate of exchange ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the ZAR rate of exchange ruling at the reporting date. All differences are taken to earnings with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognised in other comprehensive earnings and accumulated as a separate component in equity until disposal of the net investment, at which time they are recognised through other comprehensive earnings.

Non-monetary assets and liabilities denominated in foreign currencies are translated at the ZAR rate of exchange ruling on the later of acquisition or revaluation dates. Gains or losses on translation are credited or charged against earnings.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency of the Group (ZAR) at the rate of exchange ruling at the reporting date. The income and expenses of foreign operations are translated at the average exchange rates for the year. Equity is stated at historical rates.

Foreign currency differences arising on the translation are recognised in other comprehensive earnings and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from other comprehensive earnings to earnings.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.3 Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker, identified as the executive committee, monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating earnings and is measured consistently with operating earnings in the consolidated financial statements.

The Group financing (including finance earnings) and income taxes are allocated to operating segments (refer to *note 7: Segmental information*).

Revenue and expenses are attributed directly to the segments to which they relate. Segment assets include all operating assets used by a segment, and consist principally of property, plant and equipment, trade and other receivables and amounts due from contract customers. Segment liabilities include all operating liabilities and consist principally of trade and other payables and amounts due to contract customers.

2.4 Property, plant and equipment

Property, plant and equipment, including right-of-use assets, are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item. Land is not depreciated.

Buildings and other items of property, plant and equipment are depreciated on a straight-line basis over their useful lives to an estimated residual value. Right-of-use assets recognised under *IFRS 16* are depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of use assets are determined on the same basis as those of property, plant and equipment. Where significant components of an item have different useful lives to the item itself, these parts are depreciated separately if the component's cost is significant in relation to the cost of the remainder of the asset.

The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the Group incurs either when the item is acquired or as a consequence of having used the item during a particular period.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to earnings or loss during the reporting period in which they are incurred. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to be realised from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in earnings or loss in the year in which the item is derecognised.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

Item	Depreciation % / period
Owned Buildings	2%
Owned plant, equipment and vehicles	5% to 33%
Right-of-use assets	Shorter of lease period and asset's useful life

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.5 Intangible assets

Recognition and measurement

Subsequent to initial recognition at cost, computer software, brand names, know-how and customer list are measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible asset	
Trademarks and brand names	Trademarks and brand names with indefinite useful lives are not amortised. Internally developed trademark expenses are written off as and when incurred.
Computer software	Internally developed computer software expenses are only capitalised when such costs are clearly associated with the development and production of identifiable and unique software products controlled by the Group and will probably generate economic benefits exceeding one year.
Know-how and customer lists	Know-how and customer lists were acquired through business combinations.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using a straight-line method over their estimated useful lives and is recognised in earnings or loss.

The estimated useful lives for current and comparative periods are as follows:

Item	Amortisation rate
Brand names with definite useful lives	5% - 10%
Know-how	20%
Customer lists	5% - 20%
Computer software	10% - 33%

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to be realised from the continued use of the asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in earnings when the asset is derecognised.

2.6 Impairment of property, plant and equipment, intangible assets and goodwill arising on consolidation

The Group assesses, at each reporting date, whether there is an indication that a non-financial asset (other than inventories and deferred tax assets) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the statement of comprehensive earnings in expense categories consistent with the function of the impaired asset.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.6 Impairment of property, plant and equipment, intangible assets and goodwill arising on consolidation continued

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive earnings unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

2.7 Inventories

Inventories are valued at the lower of cost and net realisable value generally determined on the first-in first-out (*FIFO*) basis and weighted average in respect of certain stock categories. The cost of manufactured goods and work-in-progress, in addition to direct materials and labour, include a proportion of production overheads based on normal operating capacity and the appropriate stage of completion.

Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

2.8 Stated capital

Treasury shares

Treasury shares comprise of shares in Aveng Limited held by the Aveng Limited Share Purchase Trust and by Aveng Management Company Proprietary Limited, and shares in terms of the forfeitable share plan. The amount of consideration paid for the treasury shares is recognised as a deduction from equity and both issued capital and weighted average number of shares is reduced by the number of treasury shares. Dividends received on treasury shares are eliminated on consolidation. Earnings are not recognised on the purchase, sale, issue or cancellation of the Group's own equity instruments.

2.9 Share based payments

The Group operates a share incentive plan for the granting of shares and/or share options to executives and senior employees as consideration for services rendered. Shares and/or share options are offered to executives and senior employees at the market price, upon recommendation by the remuneration committee. Shares and/or share options awarded to executives and senior employees are awarded over a period of three to four years.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured with reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of performance conditions, other than conditions linked to the market value of the Company's shares. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate as to the number of equity instruments that will ultimately vest. The earnings charge or credit for a period represents the movement in cumulative expense recognised at the beginning and at the end of each reporting period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Provided that all other performance conditions are satisfied, these awards are treated as vesting irrespective of whether or not the market condition is satisfied. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified.

In addition, an expense is recognised for any modification, which increases the consolidated total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.9 Share-based payments continued

Equity-settled transactions continued

Where an equity- settled award is cancelled, it is treated as if it had vested on the date of cancellation. Any expense not yet recognised for the award is immediately recognised. In the event that a new award is substituted for the cancelled award, and designated as a replacement award, the cancelled and new awards are treated as if they were a modification to the original award. The dilutive effect of outstanding options is included in the computation of diluted earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date by means of an adjusted binomial option pricing model which takes into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the vesting period with recognition of a corresponding liability. This liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in earnings.

Subsidiaries

Share-based payments that are classified as equity or cash-settled at the Group level are classified as follows in the subsidiary level:

- Equity-settled, where the receiving subsidiary has no obligation to settle the transaction;
- Equity-settled, where the settling subsidiary has the obligation to settle in its own equity instruments;
- Cash-settled, where the settling subsidiary has the obligation to settle in cash or other assets, including equity instruments of another Group entity (where relevant).

2.10 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events for which it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.11 Employee benefits

Short-term employee benefits

All short-term benefits are charged as an expense in the period in which the related service is rendered by employees. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and this amount can be estimated reliably. The liability under short term benefits is accounted for as the undiscounted amount expected to be paid in exchange for the services received.

Post-retirement benefits

The Group has a number of retirement benefit plans for its eligible employees. These plans comprise both defined contribution and a closed defined benefit plan. South African funds are governed by the Pension Funds Act, 1956 as amended. Other funds are governed by the respective legislation of the country concerned.

The overall expected rate of return on assets is determined based on market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

The risks pertaining to the defined contribution plans does not lie with the Group regarding the sufficiency of the plan assets or returns on these assets. With regards to the closed defined benefit plan, the pensioner liabilities are fully funded and accordingly the Group has no foreseen future funding obligation. As such, the above information has been provided for information purposes only.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense in the reporting period to which they relate.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.11 Employee benefits continued

Defined benefit plans

In respect of the Grinaker Group Pension Fund pensioner liabilities are fully outsourced to Momentum Group Limited. The surplus member apportionment account is defined benefit in nature and fully funded and no further funding is required from the employer. However, should Momentum Group be unable to perform in terms of an Annuity Purchase Agreement, the obligation to fund the pensioner liabilities may revert to the Group.

The Group has assessed the likelihood of Momentum being unable to perform in terms of an annuity purchase agreement to be remote.

Other long-term employee benefits

Other long-term employee benefits include items such as the Group's long-term disability benefits as well as the portion of the Group's leave pay benefits not expected to be settled wholly within twelve months after the annual reporting period in which the employees render the related service.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within twelve months of the reporting date, then they are discounted.

2.12 Revenue from contracts with customers

Construction contracts

Revenue from construction contracts is recognised when the outcome of the construction contract can be measured reliably, by reference to satisfaction of the performance obligation(s) over a period of time. The Group has concluded that it is the principal in its construction contract revenue arrangements, because it typically controls the delivery of construction contracts over a period of time. Anticipated losses to completion are immediately recognised as an expense in contract costs.

When the outcome of a construction contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

Where contract costs incurred to date plus recognised earnings, less recognised losses exceed progress billings, the surplus is reflected as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits, less recognised losses, the surplus is reflected as amounts due to customers for contract work.

Amounts received before the related work is performed are included as a liability in the consolidated statement of financial position, as amounts received in advance under the amounts due from / (to) contract customers. Amounts billed for work performed but not collected from customers are included as contract receivables. Variations in contract work, claims and incentive payments are included as part of contract revenue as follows:

Claims impact on transaction price

Claims are subject to a high level of uncertainty. Various claims are submitted by the Group to their customers. Under *IFRS 15* revenue from claims is required to be accounted for as variable consideration and claims are included in revenue only when it is highly probable that revenue will not be reversed in the future.

Variations to a contract

Revenue related to variations is recognised when it can be reliably measured and it is highly probable that revenue will not be reversed in the future.

Incentive payments

Revenue is recognised when the contract is sufficiently advanced that it is highly probable that the specified performance standard will be met or exceeded and the revenue will not be reversed in the future, and the amount of incentive payment can be measured reliably.

Revenue is measured at the consideration at which the Group is expected to be entitled to, excluding discounts, rebates and Value Added Taxation (VAT).

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.12 Revenue from contracts with customers continued

Construction contracts continued

Combining and segmenting construction contracts

The Group's contracts are typically negotiated for the construction of a single asset or a group of assets which are closely inter-related or inter-dependent in terms of their design, technology and function. In certain circumstances, the Group measures revenue over a period of time for each separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or group of contracts.

Assets covered by a single contract are treated separately when:

- separate proposals have been submitted for each asset;
- each asset has been subject to separate negotiation and the Group and customer have been able to accept or reject that part of the contract relating to each asset; and
- the costs and revenues of each asset can be identified.

A group of contracts is treated as a single construction contract when:

- the group of contracts is negotiated as a single package;
- the contracts are so closely inter-related that they are, in effect, part of a single project with an overall positive margin; and
- the contracts are performed concurrently or in a continuous sequence.

Sale of goods

Revenue from sale of goods is recognised when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods, recovery of the consideration is probable, the associated costs and possible return of goods that can be estimated reliably. The Group has concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to the customer.

Timing of revenue from exported goods

The timing of the transfer of control varies depending on the individual terms of the sales contract.

The Group sells certain products to the export market in Africa. Revenue is recognised when the customer obtains control of the goods. Determining the timing of transfer of control requires judgement. Where control is transferred on a later date, revenue on the transaction will only be recorded when control has transferred and will result in a delay in revenue recognition.

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled to in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of electronics equipment provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration

Revenue is measured at the consideration at which the Group is expected to be entitled to, excluding discounts, rebates and VAT.

Transport revenue

Revenue from transport services is recognised when goods being transported are delivered to the customer at an amount that reflects the consideration to which the Group expects to be entitled to for the delivery of goods. The Group has generally concluded that it is the principal in its transport revenue arrangements, because it typically controls the transport service before delivering the goods to the customer.

Revenue is measured at the consideration at which the Group is expected to be entitled to, excluding discounts, rebates and VAT.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.12 Revenue from contracts with customers continued

Practical expedients

The Group has elected to apply the following practical expedients available in *IFRS 15*:

Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in *IFRS 15*, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Costs to obtain a contract

The Group pays sales commission to its employees for certain types of contracts that they obtain. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions (included under employee benefits and part of cost of sales) because the amortisation period of the asset that the Group otherwise would have used is one year or less.

2.13 Interest earnings

Interest received on bank balances is recognised on a time proportion basis that takes into account the effective interest on the asset. An appropriate accrual is made at each reporting date.

2.14 Other earnings

Dividends received are included in earnings or loss when the Group's right of payment has been established, except when the Group benefits from such proceeds as a recovery of the cost of the financial asset, in which case, such gains are recorded in other comprehensive earnings. The right of payment has been established when the dividend has been appropriately authorised and is no longer at the entity declaring the dividend's discretion.

2.15 Fair value of assets and liabilities

Financial and non-financial assets

The Group measures certain financial instruments, including infrastructure investments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Each method of determining fair value can be analysed into the following categories:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis or other valuation models.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.16 Financial instruments

Financial assets

Initial recognition and measurement

The Group initially recognises financial assets when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value plus in the case of assets not measured at fair value through profit or loss, directly attributable transaction costs. Subsequently financial assets, excluding derivatives, are classified as measured at amortised cost or fair value, depending on the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Derivatives are subsequently measured at fair value through profit or loss. Changes in the fair value of derivatives used to economically hedge the Group's foreign exchange exposure are recognised in other earnings in the earnings or loss component of the statement of comprehensive earnings.

A financial asset qualifies for amortised cost, using the effective interest method net of any impairment loss if it meets both of the following conditions:

– the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
– the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, it is measured at fair value.

The assessment of business model is made at portfolio level as this reflects best the way the business is managed and information is provided to management.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the trade date, ie. the date that the Group commits to purchase or sell the asset.

The Group's financial assets are classified as trade and other receivables, amounts due from contract customers, infrastructure investments and cash and bank balances.

The Group's financial assets are classified and measured as follows:

Financial investments / infrastructure investments

The Group holds investments in the equity interest of a number of non-listed entities, which are subsequently measured at fair value through profit or loss.

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost.

Amounts due from contract customers

Amounts due from contract customers are carried at cost plus margin recognised, less billings and recognised losses at the reporting date in accordance with the revenue recognition policy in *section 2.12 Revenue from contracts with customers.*

Contract receivables and contract retentions are initially recognised at cost plus margin, which approximates fair value, and are subsequently measured at amortised cost. Contract receivables and retentions comprise amounts due in respect of progress billings certified by the client or consultant at the reporting date for which payment has not been received and amounts held as retentions on certified work at the reporting date.

Contract costs include costs that are attributable directly to the contract and costs that are attributable to contract activity. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design, technical assistance, and any other costs which are specifically chargeable to the customer in terms of the contract.

Contract costs incurred that relate to future activity are recognised as an asset to the extent that it is probable it will be recovered. Such costs represent amounts due from contract customers.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.16 Financial instruments continued

Financial assets continued

Cash and bank balances

Cash and bank balances comprise cash on hand and bank balances that are subsequently measured at amortised cost. Cash held in joint arrangements are available for use by the Group with the approval of the joint arrangement partners. Bank overdrafts are offset against positive bank balances where a legally enforceable right of offset exists and there is an intention to settle the overdraft and realise the net cash. For the purposes of the statement of cash flows, cash and bank balances consist of cash and bank balances defined above net of outstanding bank overdrafts.

Presentation of Impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the asset.

Derecognition

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in *IAS 39* with a forward-looking 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments at Fair Value through Other Comprehensive Earnings, but not to investments in equity instruments. Under *IFRS 9*, credit losses are recognised earlier than *IAS 39.*

Under *IFRS 9*, ECLs are recognised in either of the following stages:

- 12 Month ECLs: those are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: those are ECLs that result from all possible default events over the expected life of the instrument.

The Group has elected to measure the loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs subsequent to initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and an analysis, based on the Group's historical experience and information, including credit assessment and forward-looking information.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls (ie. the difference between the contractual cash flows due to the entity in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate of the financial asset).

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.16 Financial instruments continued

Financial assets continued

Credit-impaired financial assets

At each reporting date, the Group has assessed whether financial assets within the scope of *IFRS 9* impairment requirements are credit impaired.

Debt instruments not carried at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of credit-impairment. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred.

Accordingly, this accounting policy relates to *note 16: Amounts due from contract customers*, *note 17: Trade and other receivables* and *note 19: Cash and bank balances*.

Objective evidence that financial assets are impaired includes, but is not limited to:

- default or delinquency by a debtor in interest or principal payments;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy or other financial reorganisation;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Initial recognition and measurement

The Group initially recognises financial liabilities when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified as measured at amortised cost or fair value, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings and other liabilities, less directly attributable transaction costs. The Group's financial liabilities include trade and other payables, borrowings and other liabilities, bank overdrafts, employee-related payables, amounts due to contract customers and derivatives that are liabilities.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss, except those financial liabilities that contain embedded derivatives that significantly modify cash flows that would otherwise be required under the contract.

Amounts due to contract customers

Where progress billings exceed the aggregate of costs plus margin less losses, the net amounts are reflected as a liability and is carried at amortised cost.

Borrowings and other liabilities

Borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in earnings when the liabilities are derecognised as well as through the amortisation process.

Trade and other payables

Trade and other payables are subsequently *measured* at amortised cost using the effective interest method.

Bank overdraft

Bank overdrafts are subsequently measured at *amortised* cost using the effective interest method.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Refer to *note 48: Offsetting financial assets and financial liabilities* for further details regarding the offsetting of financial instruments.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.16 Financial instruments continued

Financial liabilities continued

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in earnings.

2.17 Tax

Current taxation

Current taxation comprises the expected taxation payable and receivable on the taxable earnings for the year and any adjustment to taxation payable or receivable in respect of previous years. It is measured using taxation rates that are enacted or substantively enacted at reporting date.

Current taxation for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current or prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current taxation is charged to earnings except to the extent that it relates to a transaction that is recognised outside earnings or loss. In this case the current taxation items are recognised in correlation to the underlying transaction either in other comprehensive earnings or directly in equity.

Deferred taxation

Deferred taxation is recognised in respect of all temporary differences at the reporting date. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base.

Deferred taxation is not recognised for:

- Taxable temporary differences that arise from the initial recognition of goodwill.
- Temporary differences on the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profits nor taxable income.
- Temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets are recognised for all deductible temporary differences, carry forward of unused taxation credits and unused taxation losses, to the extent that it is probable that taxable income will be available against which they can be used in the foreseeable future.

The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates that are expected to apply to the year when the asset is realised or the liability is settled based on enacted or substantively enacted taxation rates at the reporting date.

Deferred taxation is charged to earnings or loss except to the extent that it relates to a transaction that is recognised outside earnings or loss. In this case the deferred taxation items are recognised in correlation to the underlying transaction either in other comprehensive earnings or directly in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in earnings, except to the extent that it relates to items previously recognised in other comprehensive earnings or credited directly to equity. The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related taxation benefit will be realised. Unrecognised deferred taxation assets are reassessed at each reporting date and are recognised to the extent that it has become probable that the future taxable income will allow the deferred taxation asset to be recovered.

Deferred taxation assets and deferred taxation liabilities are offset, if a legally enforceable right exists to set off current income taxation assets against current taxation liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.17 Tax continued

Withholding tax

A dividend withholding tax is withheld on behalf of the taxation authority on dividend distributions.

Other taxes

Revenues, expenses and assets are recognised net of Value Added Tax except for:

- Where the Value Added Tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the Value Added Tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of Value Added Tax included.

The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.18 Leases

2.18.1 Transition approach

The Group has adopted *IFRS 16 Leases* using the modified retrospective approach, with the effect of initially applying the standard recognised at the date of initial application (ie 1 July 2019). Accordingly, the information presented for 30 June 2019 has not been restated – ie it is presented, as previously reported under *IAS 17 Leases* (IAS 17), *IFRIC 4 Determining whether an Arrangement contains a Lease (IFRIC 4)* and related interpretations.

IFRS 16 establishes a comprehensive framework for determining the recognition, measurement and disclosures of leases, and to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. It replaces *IAS 17, IFRIC 4* and related interpretations.

On adoption of *IFRS 16*, the Group recognised lease liabilities in relation to leases which had been previously classified as 'operating leases' under the principles of *IAS 17* as well as those contracts which may meet the definition of leases under *IFRS 16*, not previously classified as 'operating leases' under *IAS 17*. The Group measured the lease liability (and corresponding right-of-use asset) at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 July 2019.

Transitional expedients

The Group as a lessee has elected to use the following optional transitional expedients on a lease-by-lease basis at the transition date:

- not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the Group elects to not apply I*FRS 16* to contracts that were previously identified as leases applying *IAS 17* and *IFRIC 4*;
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- to account for short-term leases with a lease term that ends within 12 months of the date of initial application as an expense on either a straight-line basis over the lease term or another systematic basis.

The lessee's weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was between 6,0% and 10,5%, based on the portfolio in which the lease was included.

Determining whether a contract is, or contains a lease

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group has applied this approach to contracts in existence, entered into, or modified on or after 1 July 2019.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.18 Leases continued

2.18.1 Transition approach continued

Calculating the discount rate

The Group initially measures the lease liability at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Group's weighted average incremental borrowing rate per portfolio of leases with reasonably similar characteristics. Generally, the Group uses its weighted average incremental borrowing rate as the discount rate.

2.18.2. Year ended 30 June 2020

Group as a lessee

Determining the lease term

The Group has determined the lease term as the non-cancellable period of the lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and the periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lease term includes any rent-free periods provided to the lessee by the lessor.

Short-term leases and leases of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Separation of lease components

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right-of-use assets

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

The right-*of-use asset is subsequently depreciated using the deprecation method as detailed in note 2*.12: *Property, plant and equipment*.

Lease payments

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest rate method.

Remeasurement

A lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.18 Leases continued

2.18.2 Year ended 30 June 2020 continued

Group as a lessee continued

Remeasurement continued

The Group presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment (refer to note 9: Property, plant and equipment) and a lease liability in borrowings and other liabilities (refer to note 22: Borrowings and other liabilities) in the statement of financial position.

Group as a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance or operating lease. As part of the assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Leases whereby the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rental is recognised as revenue during the period in which it is earned.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Sub-leases

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. The Group assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

2.18.3 Year ended 30 June 2019

Group as a lessee

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate payments reliably, then the asset and liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

Leased assets

Assets held by the Group under leases that transfers to the Group substantially all the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Lease payments

Payments made under operating leases are recognised in earnings or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.18 Leases continued

2.18.3 Year ended 30 June 2019 continued

Group as a lessee continued

Lease payments continued

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Sale and leaseback

Where a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

Where a sale and leaseback transaction results in an operating lease, the gain or loss on sale is recognised in earnings or loss immediately if (i) the Group does not maintain or maintains only minor continuing involvement in the asset other than the required lease payments, and (ii) the transaction occurs at fair value. If the sales price is below fair value, the shortfall is recognised in earnings immediately except where the loss is compensated for by future lease payments at below market price, in which case it is deferred and amortised in proportion to the lease payments over the period for which the assets are expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period the assets are expected to be used.

Group as a lessor

Leases whereby the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rental income is recognised as revenue during the period in which it is earned.

Rent concessions

Where rent concessions granted by a lessee result in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change, are due on or before 30 June 2021, and do not result in a substantive change to other terms and conditions in the lease, the Group elects to account for changes in lease payments from rent concessions in the same way it would account for the change if it were not a lease modification.

2.19 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and its existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

If the likelihood of an outflow is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

Contract performance guarantees issued by the parent company on behalf of the group companies are calculated based on the probability of draw down.

2.21 Non-current assets Held for Sale and Discontinued operations

Non-current assets and disposal groups are classified as Held for Sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within the next 12 months.

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.21 Non-current assets Held for Sale and Discontinued operations continued

Loans (from) / to Group companies that have been classified as Held for Sale are eliminated on consolidation. Non-current assets (and disposal groups) classified as Held for Sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as Held for Sale.

2.22 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- Represents a separate major line of business or geographic area of operations;
- Is part of a single coordinated plan to dispose of a separate line of business of geographic area of operations; and
- Is a subsidiary acquired solely with a view to resell.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be Held for Sale. When an operation is classified as a discontinued operation, the Statement of Comprehensive Earnings is presented as if the operation had been discontinued from the beginning of the comparative period.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in Note *20: Non-current assets and liabilities Held for Sale*. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

2.23 Investments in subsidiaries

Investments in Group companies, which consist of subsidiaries, joint ventures and associates in the separate financial statements, are stated at cost less amounts written off where there has been an impairment.

2.24 Impact of adopting the new standards on the statement of financial position

IFRS 16 *Leases*

Weighted average incremental borrowing rate

The Group applies a weighted average incremental borrowing rate in determining the present value of the lease liability at transition date. A portfolio approach allows the Group to apply a single discount rate for a portfolio of leases with similar characteristics. As such, the Group has determined a range of weighted average incremental borrowing rates of between 6,0% and 10,5% depending on the portfolio of leases at transition.

Continuing operations

The adoption of *IFRS 16* has impacted the property, plant and equipment through the recognition of right-of-use assets amounting to R557 million. At the end of the prior reporting period, the Group had operating lease commitments amounting to R578 million which have been appropriately discounted and included in the lease liabilities. At inception, the lease liabilities comprised a current portion of R241 million, and a non-current portion of R316 million.

Discontinued operations

The adoption of *IFRS 16* has impacted the property, plant and equipment through the recognition of right-of-use assets amounting to R926 million in the *Construction and Engineering: South Africa a rest of Africa* disposal group and *Manufacturing and Processing* group which have been classified as Held for Sale. At the end of the prior reporting period, the Group had operating lease commitments amounting to R1 393 million which have been appropriately discounted and included in the lease liabilities. At inception, the lease liabilities comprised a current portion of R86 million, and a non-current portion of R840 million.

Short-term leases and leases of low-value assets

While determining the effect of the transition adjustment at 1 July 2019, the Group applied the transition recognition exemption within *IFRS 16.C10(c)(i)* for short-term leases and *IFRS 15.C9(a)* for leases of low-value assets. At 1 July 2019, the Group determined that operating lease commitments amounting to R105 million at 30 June 2019 qualified as short-term leases which were due to come to an end within 12 months of the transition date. Furthermore, lease contracts that contained low-value assets which met the recognition exemption had a combined asset value of R4 million at 1 July 2019.

IFRIC 23 *Uncertainty over Income Tax Treatments*

No additional current or deferred tax liabilities were recognised as a result of *IFRIC 23*. The Group will review uncertain tax positions periodically based on any changes to the circumstances and legal precedent

Accounting policies

for the year ended 30 June 2020

2. ACCOUNTING POLICIES continued

2.24 Impact of adopting the new standards on the statement of financial position continued

In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the *IFRS 16* transition date:

Impact on assets and liabilities at 1 July 2019	As reported previously at 30 June 2019 Rm	*IFRS 16* Transition adjustments Rm	Opening balance at 1 July 2019 Rm
Non-current assets			
Property, Plant and equipment	**2 814**	**557**	**3 371**
Assets Held for Sale*	**3 843**	**926**	**4 769**
Total assets impact		**1 483**	
Equity			
Accumulated losses**	**(2 208)**	**184**	**(2 024)**
Total equity impact		**184**	
Current liabilities			
Borrowings and other liabilities	**695**	**241**	**936**
Trade and other payables***	**2 683**	**(114)**	**2 569**
Non-current liabilities			
Borrowings and other liabilities	**1 450**	**316**	**1 766**
Liabilities Held for Sale****	**3 436**	**856**	**4 292**
Total equity impact		**1 299**	

* *Right-of-use assets amounting to R926 million in the* Construction and Engineering: South Africa and the rest of Africa *and* Manufacturing and Processing *disposal groups are classified as Held for Sale at 1 July 2019, and are accounted for in terms of* IFRS 5.

** *The decrease in accumulated losses is as a result of straight lining of operating lease liabilities previously recognised under* IAS 17 Leases *(R114 million continuing operations and R7 million discontinued operations)*

*** *Included in Trade and other payables at 30 June 2019 is an amount of R114 million relating to the straight lining of operating lease liabilities previously recognised under* IAS 17. *As the Group adopted* IFRS 16 *using the modified retrospective approach, the straight lining of operating lease liabilities are reversed at transition date.*

**** *The net effect of liabilities Held for Sale at transition is an increase of R856 million. Lease liabilities amounting to R926 million in the* Construction and Engineering: South Africa and the rest of Africa *and* Manufacturing and Processing *disposal groups are classified as Held for Sale at 1 July 2019, and are accounted for in terms of* IFRS 5. *In addition, trade and other payables Held for Sale at 30 June 2019 included an amount of R70 million relating to the straight lining of operating lease liabilities previously recognised under* IAS 17.

Refer to note 43: *Commitments* for the reconciliation of operating lease commitments at 30 June 2019 to lease liabilities at 1 July 2019.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Judgements and estimation assumptions

In the process of applying the Group's accounting policies, the Group has made judgements relating to certain items recognised, which have the most significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Accounting policies continued

for the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.1 Useful lives of property, plant and equipment

The Group reviews the estimated useful lives, residual values and depreciation methods of property, plant and equipment at the end of each reporting period.

Refer to *note 9: Property, plant and equipment* for further detail.

3.1.2 Intangible assets

The Group reviews the estimated useful lives, residual values and amortisation methods of intangible assets at the end of each reporting period.

Refer to *note 11: Intangible assets* for further detail.

3.1.3 Equity-accounted investments

Equity-accounted entities are entities in which the Group holds less than 20% of the voting power, but the Group has determined that it has significant influence in entities where it holds less than 20% of the voting power. The Group's significant influence is due to the Group having a representation on the Board of directors in each of these entities and the Group's participation in decisions over the relevant activities of the entities.

Refer to *note 12: Equity-accounted investments* for further detail.

Equity-accounted investments that are managed, reported and evaluated on a fair value basis are classified as infrastructure investments held at fair value.

3.1.4 Deferred taxation

Deferred taxation assets are recognised for all unused taxation losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred taxation assets that can be recognised, based upon the likely timing and level of future taxable earnings. If the deferred taxation assets and the deferred taxation liability relate to income taxation in the same jurisdiction, and the law allows net settlement, they have been offset in the statement of financial position.

Refer to *note 14: Deferred taxation* for further detail.

3.1.5 Amounts due from/ (to) contract customers

The Group estimates the risk associated with the amounts due from contract customers in order to classify these assets according to their maturity profile. Positions related to long outstanding contract positions have been judged in conjunction with legal advice and potential timeframes associated with legal action.

Refer to *note 16: Amounts due from/ (to) contract customers* for further detail.

3.1.6 Trade and other receivables and contract receivables

Allowance for expected credit losses – specific debtors

The Group estimates the level of allowance required for expected credit losses – specific debtors on an ongoing basis based on historical experience as well as other specific relevant factors.

Refer to *note 17: Trade and other receivables* for further detail.

Provision for expected credit losses

The Group uses a probability of default/loss-given-default/exposure-at-default (PD/LGD/EAD) approach to calculate expected credit losses (ECLs) for trade receivables and contract assets. The Group segments its portfolio of trade receivables and contract assets into various segments based on shared risk characteristics to ensure homogenous grouping of counterparties. The classification of counterparties into the various segments is based on judgement, however is limited to categories established in *Basel II Accord* and *SARB regulations (ie. Externally rated entity, unrated public institutions*. Other unrated corporate entities and other unrated retail entities), as well as the country of operation of the counterparty to appropriately classify the counterparty into various risk-based segments based on external rating agencies categorisation of sovereign debt.

Accounting policies continued

for the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.6 Trade and other receivables and contract receivables continued

The probability of default (PD) (defined by the Group as the pool of obligors that are included in the 0 - 90 days past due category; and the 90 days past due category, that will default in the next 12 months) is established by applying a benchmark approach using applicable segment's average PD as obtained from external rating agencies based on the classifications established above. The Group applies judgement through a regression model to adjust the estimated PD using historical information and historical default rates. The Group uses external rating agencies historical PD's to generate forward looking PD's for each segment identified above.

Each established segment in the Group uses judgement to adjust the average LGD's found in the *AIRB banks of South Africa's Pillar 3 reports* in order to remove the securitisation (collateral), overhead costs and downturn components, inherently included within.

Due to the short-term nature of the trade receivables portfolio (less than one year), the Group assumes that the exposure-at-default (EAD) will equal to the amount outstanding at reporting date. The Group assumes that the period of exposure would amount to the payment term plus the number of days defined as default. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due (a payment term as determined from an analysis of historical data). The Group considers this period to be the number of days defined as default as it is the maximum contractual period over which the Group is exposed to risk.

The Group uses a market related interest rate in the determination of the effective interest rate used in the model.

The assessment of the correlation between historical observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group built a simple linear regression model to predict average forward-looking probability of defaults using GDP growth rates in which the Group operates. The Group determined a clear relationship between the probability of defaults of external rating agencies and the annual GDP growth of geographies in which it operates. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. Accordingly, the information about the ECLs on the Group's trade receivables and amounts due from contract customers assets is disclosed in note *16: Amounts due from contract customers*, note *17: Trade and other receivables* and note *19: Cash and bank balances*.

3.1.7 Inventory

Allowance for obsolete inventory

The Group estimates the level of allowance required for obsolete inventory on an ongoing basis based on historical experience as well as other specific relevant factors.

Refer to *note 18: Inventories* for further detail.

3.1.8 Share-based payments

Equity-settled

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

Cash-settled

The benefit payable to an employee on exercise date under both the Share Appreciation Right and Option plans is calculated as the higher of the difference between the spot share price at the time of exercise and the strike (or grant) price, and zero. The Group's share option methodology utilises the binomial tree / lattice (based on risk-neutral principles). Sub-optimal exercise multiples are incorporated so as to include the possibility of early exercise. In addition, the following factors are taken into account as inputs in the option pricing methodology:

- Expected volatility of the share price;
- Expected dividend on the share during the life of the option.

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note *27: Share-based payments.*

Accounting policies continued

for the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.9 Fair value of assets and liabilities

Financial assets and non-financial assets

The fair values of the infrastructure investments recognised in the statement of financial position are measured using the discounted cash flow approach and the market comparable approach. The inputs to these models are sourced from independently audited investment specific project finance models and from observable markets, where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as forecasted revenues, operating costs, capital expenditure, risk adjusted discount rates and other relevant financial performance measures.

Refer to *note 47: Fair value of assets and liabilities* for the detailed assumptions applied.

3.1.10 Impairment of property, plant and equipment, intangible assets and goodwill arising on consolidation

The Group assesses the recoverable amount of any goodwill arising on consolidation and indefinite useful life intangible assets annually or when indicators of potential impairment are identified as allocated to the cash generating unit (CGU) of the Group.

Impairment exists when the carrying amount of a CGU exceeds its recoverable amount. The fair value less costs of disposal calculation is based on available data (if applicable) from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from future budgets and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU.

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 key assumptions used to determine the recoverable amount for the different CGUs, including sensitivities, are disclosed and further explained in *note 8.2: Impairment of goodwill arising on consolidation*.

3.1.11 Revenue recognition

The Group uses the input method in determining the satisfaction of the performance obligation over a period of time in accounting for its construction contracts.

Judgements made in the application of the accounting policies for contracting revenue and profit and loss recognition include:

- the determination of the point in the progress toward complete satisfaction of the performance obligation;
- the determination of when it is highly probable that revenue will not be reversed in the future for claims and variations;
- estimation of total contract revenue and total contract costs;
- assessment of the amount the client will pay for contract variations; and
- estimation of project production rates and programme through to completion.

The construction contracts undertaken by the Group may require it to perform extra or change order work, and this can result in negotiations over the extent to which the work is outside the scope of the original contract or the price for the extra work.

Given the complexity of many of the contracts undertaken by the Group, the knowledge and experience of the Group's project managers, engineers and executive management is used in assessing the status of negotiations with the customer, the reliability with which the estimated recoverable amounts can be measured, the financial risks pertained to individual projects, and the associated judgements end estimates employed. Cost and revenue estimates are reviewed and updated monthly, and more frequently as determined by events or circumstances.

In addition, many contracts specify the completions schedule requirements and allow for liquidated damages to be charged in the event of failure to achieve that schedule; on these contracts, this could result in the Group incurring liquidated damages.

Accounting policies continued

for the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.12 Contingent liabilities

Parent company guarantees issued in the ordinary course of business are at inception accounted for as contingent liabilities in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* (*IAS 37*) and disclosed accordingly. Subsequent to the issuance of the guarantee, and a Completion Certificate for the related work, the probability of the related obligation is determined to be remote (and therefore not disclosed in the financial statements unless there are other reasons that make the obligation probability possible).

Where a claim on the guarantee has been made by the respective client, the probability of the obligation is assessed in detail by management.

Where there is a possibility of reimbursement on a parent guarantee, this reimbursive right is required to be disclosed (as a contingent asset) separate to the related obligation, only if virtually certain.

Reimbursements from cross indemnities may not be disclosed in the financial statements unless a claim is made by a client on the corresponding obligation, and the reimbursement is considered probable.

3.1.13 Loss making and onerous contracts

In determining whether a contract is loss making or onerous, management applies their professional judgement to assess the facts and circumstances specific to the relevant contract. The assessments are performed on a contract-by-contract basis.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense. The following factors are taken into account: future estimated revenues; the determination of the point in the progression toward complete satisfaction of the performance obligations in the contract; the nature and relationship with the customer; expected inflation; the terms of the contract and the Group's experience in that industry.

3.1.14 Leases

Judgements made in the application of the accounting policies for leases include:

- determining whether a contract contains a lease;
- calculating the discount rate;
- determining the lease term;
- application of exemptions for short-term leases and leases of low-value assets; and
- separation of lease components.

At inception of a contract, the Group assesses whether a contract is, or contains a lease. In determining whether a contract is, or contains a lease, the Group considers whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In determining an appropriate discount rate, the Group considers on a lease-by-lease basis whether there is an interest rate implicit in the lease or, if that rate cannot be readily determined, the Group uses judgement in determining an incremental weighted average borrowing rate. In calculating the weighted average incremental borrowing rate, the Group uses a portfolio approach whereby a single discount rate is calculated per portfolio of leases with reasonably similar characteristics. The basis of the discount rate is determined using a cost of debt rate that the Group would pay to borrow funds over a similar term, and with similar security, to obtain an asset of similar value to the right-of-use asset in particular jurisdiction.

The Group considers the lease term as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and the periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lease term includes any rent-periods provided to the lessee by the lessor.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Accounting policies continued

for the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.14 Leases continued

At inception or on reassessment of a contract that contains a lese component, the Group allocates the consideration in the contract to each lease component based on their relative standalone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate the non-lease components but rather account for the lease and non-lease components as a single lease component.

3.1.15 Uncertainty over income tax treatments

In determining the taxable profit / (loss), tax bases, unused tax losses and tax rates, management assumes that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

In determining whether tax treatments should be considered independently or on a collective basis, the Group selects the approach that provides better predictions of the resolution of the uncertainty. The Group reassess the tax treatment if facts and circumstances change.

3.1.16 Impact of the COVID-19 on operations

At 30 June 2020, the impact and duration of the current COVID-19 pandemic and the related measures taken to control it, including the likelihood of a global recession, are not yet known. In preparing these financial statements, the short-term impact on items such as financial instruments, working capital, sales and provisions has been considered. The valuations of financial assets and liabilities carried at fair value reflect inputs known at the reporting date. In assessing the carrying value of its other non-current assets, the Group has assumed that, despite a significant short-term impact, long-term market conditions remain unchanged, as the timing and scale of the economic impact and recovery remain uncertain.

3.1.17 Held for Sale – subsequent measurement criteria

In determining whether the non-core disposal groups continue to be classified as Held for Sale, management believes that the carrying amount of these disposal groups will be recovered through a sale transaction rather than through continuing use. Management uses judgement in determining whether the sale of CGUs remains highly probable.

In the preceding 12 months there have been numerous expressions of interest, and a number of non-binding offers for cash generating units (CGUs) within the disposal groups, however the Group did not receive reasonable offers to purchase all of the remaining CGUs. The delay in the finalisation of sales were due to events and circumstances beyond the control of management; including but not limited to the significant impact of COVID-19 on the ability to obtain the best value for the remaining assets, and the corresponding uncertainty within the market brought about during lockdown.

Management continues to remain committed to the disposal plan previously announced to dispose of the remaining non-core disposal groups and continues to actively locate appropriate buyers. The overall plan to dispose of the assets remains but the planned manner in which the assets will be disposed of has been revised during the year. The appropriate level of management remains committed to a plan to sell the CGUs and expect that the sales will be concluded within the next 12 months.

Through the use of these judgements, the Group concludes that the carrying amount of the remaining disposal groups classified as Held for Sale will be recovered principally through a sale transaction rather than continuing use. The Group will continue to reassess the classification should facts and circumstances change.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE

The following accounting standards are applicable for the Group in the current financial year:

IFRS 16 Leases (new standard)

(effective 1 January 2019)

IFRS 16 Leases (IFRS 16) replaces existing leases guidance, including *IAS 17 Leases (IAS 17)*, *IFRIC 4 Determining whether an Arrangement contains a Lease (IFRIC 4)*, *SIC-15 Operating Leases – Incentives (SIC-15)* and *SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease (SIC-27)*.

IFRS 16 introduces a single, *on-balance sheet* lease accounting model for lessees, similar to the accounting for finance leases under *IAS 17*. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – ie. lessors continue to classify leases as finance or operating leases.

The consolidated financial statements have been updated in the current year to ensure compliance with *IFRS 16* requirements including the implications of adoption of the various transition options.

The Group has adopted *IFRS 16 Leases* using the modified retrospective approach (with practical expedients), with the effect of initially applying the standard recognised at the date of initial application (ie 1 July 2019). Accordingly, the information presented for 30 June 2019 has not been restated – ie it is presented, as previously reported under *IAS 17*, *IFRIC 4* and related interpretations.

IFRIC 23 Uncertainty over Income Tax Treatments (new interpretation)

(effective 1 January 2019)

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects IAS 12. The interpretation addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group previously presented uncertain income tax liabilities as part of provisions based on amounts expected to be paid to the tax authorities. Following the implementation of *IFRIC 23*, the Group has adopted the treatment as set out in the IFRIC agenda and has classified uncertain income tax related liabilities to current tax liabilities in the consolidated annual statement of financial position.

No *additional* current or deferred tax liabilities were recognised as a result of *IFRIC 23*. No significant judgements and estimates were applied in determining the uncertain tax positions. The Group will review uncertain tax positions periodically based on any changes to the circumstances and legal precedent. A reassessment in future may be triggered due to a change in circumstances.

IFRS 9 Prepayment features with negative compensation (amendments)

(effective 1 January 2019)

The *amendments* clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The *amendments* had no impact on the consolidated financial statements of the Group as it did not have any prepayments with negative compensation.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE continued

IAS *28* Long-*term Interests in Associates and Joint Ventures* (amendments)
(effective 1 January 2019)

The amendments clarify that an entity applies *IFRS 9* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in *IFRS 9* applies to such long-term interests.

The amendments also clarified that, in applying *IFRS 9*, an entity does not take into account any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying *IAS 28 Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associates or joint ventures.

***IAS 19 Plan Amendments, Curtailment or Settlement* (amendments)**
(effective 1 January 2019)

The amendments to *IAS 19* address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan, the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

***IAS 12 Income Taxes* (amendments)**
(effective 1 January 2019)
Annual Improvements 2015 – 2017 cycle:

Clarifies that the income tax consequences of dividends are linked more directly to the past transactions or events that generated distributable profits than the distributions to owners. Therefore, an entity recognises the income or equity according to where the entity originally recognised those past transactions or events.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IFRS 3 Business Combinations
(effective 1 January 2019) (amendments)
Annual Improvements 2015 – 2017 cycle:

Clarifies that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

IFRS 11 Business Combinations and Joint Arrangements* (*amendments)
(effective 1 January 2019)
Annual Improvements 2015 – 2017 cycle:

IFRS 11 provides clarity that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE continued

IAS 23 Borrowing costs

(effective 1 January 2019)

Annual Improvements 2015 – 2017 cycle:

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IFRS 16 COVID-19-Related Rent Concessions (amendments)

(effective 1 June 2020)

In response to the COVID-19 pandemic, the International Accounting Standards Board (the Board) has issued amendments to *IFRS 16 Leases* to allow lessees not to account for rent concessions as lease modifications if they are as a direct consequence of COVID-19 and meet certain conditions.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose:

- that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
- the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

The Group has adopted these amendments to contracts where lease concessions were provided as a direct consequence of COVID-19. The Group does not treat these concessions as lease modifications and has appropriately disclosed as such.

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2020. All other standards and interpretations that are not disclosed have been assessed and are not applicable to the Group.

***IFRS 3 Definition of a Business* (amendments)**

(effective 1 January 2020)

In October 2018, the IASB issued amendments to the definition of a business in *IFRS 3 Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

IAS 1 and IAS 8 Definition of Material (amendments)

(effective 1 January 2020)

In October 2018, the IASB issued amendments to *IAS 1 Presentation of Financial Statements* and *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, *'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.*

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE continued

IFRS 17 Insurance contracts **(new standard)**

(effective 1 January 2023)

In May 2017, the IASB issued *IFRS 17 Insurance Contracts* (*IFRS 17*), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, *IFRS 17* will replace *IFRS 4 Insurance Contracts* (*IFRS* 4) that was issued in 2005. *IFRS 17* applies to all types of insurance contracts (ie., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of *IFRS 17* is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in *IFRS 4*, which are largely based on grandfathering previous local accounting policies, *IFRS 17* provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of *IFRS 17* is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies *IFRS 9* and *IFRS 15* on or before the date it first applies *IFRS 17.*

This standard is not applicable to the Group.

IFRS 9**,** ***IAS 39*** **and** ***IFRS 7 Interest rate Benchmark Reform*** **(amendments)**

(effective 1 January 2020)

In May 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. The Board completed its deliberation process in August 2019. The Board has now published its first-phase amendments.

The Group does not have any hedges affected by IBOR reform. The amendments are not expected to have any impact on the Group's consolidated financial statements.

IAS 1 Classification of liabilities as current or non-current **(amendments)**

(effective 1 January 2022)

To promote consistency in application and clarify the requirements on determining if a liability is current or non-current, the IASB has amended *IAS 1*.

Under existing *IAS 1* requirements, companies classify a liability as current when they do not have an *unconditional right* to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

The Group is still in the process of determining the impact of the amendments to the accounting standard.

IFRS 10 **and** ***IAS 28*** **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)**

(optional amendment)

Resolves the conflict regarding how much of the gain on disposal the parent can recognise when control of a subsidiary is lost in a transaction with an associate or a joint venture.

The Group has assessed that the amendment to the standards do not have an impact on the Group currently, it will be reconsidered in future as and when it does become applicable.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

5. GOING CONCERN AND LIQUIDITY

As detailed in *note 1: Presentation of Consolidated Financial Statements* and note 49: *Events after the reporting period* to the financial statements, in determining the appropriate basis of preparation of the financial statements, the Board is required to consider whether the Group can continue in operational existence for the foreseeable future.

In concluding this assessment, the Board has taken the following considerations into account:

Execution of plans

- Continued improvement in the operating performance and therefore underlying value and sustainability of both McConnell Dowell and Moolmans;
- Progress on the non-core asset disposal plan, including:
  - The receipt of proceeds of R226 million in the 2020 financial year, including, *Aveng DFC* of R114 million, *Aveng Construction Building and Civil Engineering* of R3 million, *Aveng Grinaker-LTA Mechanical and Electrical* for R72 million and a R37 million payment for *Aveng Construction Rand Roads*;
  - Subsequent to year end, disposals were concluded in respect of Ground Engineering Limited (GEL), Duraset, REHM Grinaker, Infraset Pietermaritzburg and various properties totalling R54 million;
  - The restructure of Aveng Trident Steel to focus on the value-added service centre business, thereby improving profitability and allowing the Group to monetise a significant part of the inventory and reduce working capital; and
  - Other disposals are at varying stages of execution.
- updated budget and business plans for post-year end period up to 30 June 2022 for the Group, incorporating the benefits already realised and expected from actions taken, as well as future benefits from improved liquidity to be achieved
- sensitivity testing of key inputs included in the operating and liquidity forecasts to ascertain the effect of non-achievement of one or more of the key inputs (operational performance of core assets, non-core asset disposal timing), including any effect on the ongoing compliance with covenant requirements in place with the South African lending banks, Australian banks or other financing agreements within the individual liquidity pools; and
- the South African short-term liquidity forecast management process continues to be executed and monitored in all the South African operations.

In the 2020 financial year, the Group reported a loss after tax of R1,1 billion, inclusive of R147 million of impairments. As a result of these losses, the continued difficult trading conditions in South Africa and the impact of COVID-19 on the operations (discussed below), the Group's available cash resources were negatively impacted. The Group continues to focus on improving operational performance, reducing overhead and improving working capital efficiencies. To this end, a number of Group initiatives have been concluded or are in progress.

The Group has cash (net of bank overdraft facilities) of R1.3 billion (30 June 2019: R1.6 billion) at 30 June 2020, of which R429 million (30 June 2019: R624 million) is held in joint arrangements. Unutilised facilities (includes bank overdraft facilities of R605 million) amounted to R483 million (30 June 2019: R302 million).

Achieved during the period to support the going concern assumption

- Arranged two additional short-term working capital facilities of R200 million each with the South African Banking Group to address a seasonal low point in the Group's cash flow that was exacerbated by specific unanticipated market events surrounding the COVID-19 pandemic, including timing delays of non-core asset sales in the latter part of the 2020 financial year, of which R200 million was repaid on 31 August 2020;
- A permanent cashflow contribution of R168 million (unaudited) from Aveng directors, employees and management in South Africa by way of salary cuts in response to COVID-19 between April and June 2020; and
- McConnell Dowell implemented salary reductions for all management and staff above a particular pay scale and not directly employed on project sites which remained open as a response to COVID-19.

COVID-19 pandemic

The unprecedented challenges of COVID-19 were dealt with effectively as the Group demonstrated its agility and resilience in response to the pandemic. The Group's diversity across customers, geographies, industry sectors and commodities provided risk mitigation and softened the impact on the overall business performance. Despite this risk mitigation, the COVID-19 pandemic created a liquidity shortfall during April and May 2020. This shortfall was managed through a short-term facility of R200 million by the Group's South African relationship banks which was repaid in August 2020 and the savings contributed by staff, management and the Board taking salary and wage cuts of approximately R168 million. The Board extends its thanks to all employees for this contribution in such exceptional circumstances.

The Group responded proactively to the restrictions and lockdowns by taking measures to protect its employees, operations and its financial position. Initiatives, including prudent cash management, working capital management and cost reductions were implemented across the Group. As a result of the restrictions and measures imposed, the Group's business units were severely impacted during the reporting period. Operations were restricted in South Africa, New Zealand and South-East Asia for varying lengths of time. Australian operations continued throughout the period.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

5. GOING CONCERN AND LIQUIDITY

COVID-19 pandemic continued

Support from clients varied from compensation for costs incurred and time lost, to only allowing extensions of time for project delays resulting from COVID-19 restrictions and measures.

At the time of this report, the Group has estimated that COVID-19 negatively impacted its EBIT by approximately R380 million (unaudited).

Due to the uncertainty of the pandemic, and the response by governments and societies around the globe, it is expected that the commercial close-out of all COVID-19 related impacts will take some time to quantify.

Achieved subsequent to year end

Subsequent to year end, the Group announced the restructuring and the recapitalisation of its balance sheet. Details of this are set out in *note 49: Events after the reporting period.*

Liquidity, solvency and ongoing funding

The Group continues to actively manage the liquidity and cash flow in two distinct liquidity pools, namely McConnell Dowell and the South African liquidity pool. McConnell Dowell's liquidity benefited from the deliberate action to settle legacy claims, the receipt of advance payments and a growing order book. As a result, McConnell Dowell will report a strong cash balance with sufficient cash and liquidity to support the growing order book and the growth opportunities that this market continues to present. The strict lockdown regulations announced in South Africa and related loss of revenue negatively impacted a liquidity position that was already under pressure. As noted, this was mitigated through short term facilities that have subsequently been repaid and a significant contribution by our people. The South African liquidity pool remains tightly managed and has demonstrated significant improvement over the first quarter of FY 2021.

Management prepared a budget for the 2021 financial year and the following two years, as well as preparing cash flow forecasts covering a minimum of 12 months from the date of these financial statements. These forecasts have been prepared with the assistance of several independent external consultants and reviewed by management to ensure that they have been accurately compiled using appropriate assumptions. Notably, the preparation of budgets, plans and forecasts include consideration of the impact of the COVID-19 pandemic. This included management's responses to the effects thereof. Whilst management has taken action to address these effects, this pandemic continues to evolve and represents a risk to the achievement of these budgets, plans and forecasts. Management will continue to respond to the circumstances as these emerge. The budgets, plans and forecasts have, together with the assumptions used, been interrogated and approved by the Board.

The Group's current liabilities of R5,8 billion exceeded its current assets of R4,9 billion at 30 June 2020. This was mainly due to the classification of the short-term debt portion of R1,1 billion to current borrowings. Following the extension to the CTA concluded post year-end, this short-term portion will reduce.

Following a multi-year journey, the restructuring and recapitalisation transaction announced post year-end, will allow the Group to reset its capital structure, deleveraging the balance sheet by more than R1 billion, extending the Group's maturity profile to 3 years, and simultaneously materially improving the Group's South African liquidity pool. Following this transformational event, Aveng believes that the remaining debt is sustainable and the remaining balance is forecast to be repaid over the next three years. Importantly, this transaction not only provides Aveng the capital structure flexibility to complete its non-core asset sale program and to wind down its remaining exposure to discontinued businesses, but also sets the Group on a path to pursue its strategy around the Group's core businesses, McConnell Dowell and Moolmans, which have returned to profitability and where Aveng sees further business improvement prospects and growth opportunities.

The forecasts indicate that the Group will have sufficient cash resources for the foreseeable future. The core businesses are performing in line with the plan and are therefore expected to generate sufficient cash to repay the long-term debt. In addition, the Group's remaining non-core businesses' (particularly Trident Steel) are expected to generate sufficient cash from operations to contribute to available liquidity. The disposals of the remaining non-core assets are expected to be completed during the 2021 financial year and will contribute to the repayment of the debt and available liquidity.

The directors have considered all of the above up to the date of approval of these financial statements, including detailed consideration of the current position of all core and non-core businesses, all business plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements, and that sufficient liquidity will be available to support the ongoing operations of the Group and that the realisation of assets and the settlement of liabilities, including contingent liabilities and commitments, will occur in the ordinary course of business.

Refer to note *49. Events after the reporting period.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

6. DISCONTINUED OPERATIONS

Identification and classification of discontinued operations

In 2018, management embarked on an extensive strategic review to ensure the Group's sustainable future. The review was completed in February 2018 following a thorough and robust interrogation of all parts of the business. The review included the identification of businesses and assets that are core to the Group and which support the overall long-term strategy, determining the most appropriate operating structure, as well as recommending a sustainable future capital and funding model.

A comprehensive plan was developed and is being implemented by management to execute on the critical findings of the strategic review. Some of the critical findings included the reshaping of the Group's operating structure to a smaller and more focused group. The newly envisaged Group structure comprises of McConnell Dowell and Aveng Moolmans forming the core businesses of the Group with Aveng Construction: South Africa (formerly Aveng Grinaker-LTA), Aveng Manufacturing and Aveng Trident Steel being deemed the non-core operating groups. As at 30 June 2020, management remained committed to a robust plan to exit and dispose of the identified non-core operating groups.

Extension of discontinued operations beyond 12 months

The extension of the classification of the remaining operations within non-core operating segments as discontinued operations beyond 12 months is supported by the ongoing commitment from the Board to actively sell the Held for Sale assets in line with the strategic review. Unforeseen challenges outside the control of management, including the negative effects of the COVID-19 pandemic on the disposal process, have delayed the execution of sales on the remaining assets. As at 30 June 2020, the Group did not have reasonable binding offers to purchase the remaining assets. Despite the delays in the disposal of these assets, management believes that the sales remain highly probable and has embarked on renewed efforts to sell the assets by engaging external partners to assist in active programmes to locate buyers and complete the sale of these assets in line with the strategic review. At year end, these assets remain available for immediate sale in their present condition subject only to terms that are usual and customary for the sales of such assets. Management continues to actively market the assets at prices that are reasonable in relation to their current fair value, which leads management to conclude that it is highly probable that the sale of the remaining assets within the non-core operating segments will be concluded in the next 12 months.

As part of the extension to the period to complete the sales, the continued support by the Board and plan by management to locate buyers indicate that it is highly unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Aveng Construction: South Africa (formerly Aveng Grinaker-LTA), forming part of the *Construction and Engineering: South Africa and rest of Africa* reportable segment (refer *to note 7: Segmental report*) and Aveng Manufacturing and Aveng Trident Steel, both forming part of the *Manufacturing and Processing* reportable segment (refer to *note 7: Segmental report),* have met the requirements in terms of *IFRS 5: Non-current Assets Held for Sale and Discontinued Operations* and have been presented as discontinued operations in the Group's statement of comprehensive earnings.

The Group's intention to dispose of the non-core operating groups triggered an initial impairment assessment on classification of Held for Sale. Impairment was allocated to the identified cash-generating units of the operating groups (refer to *note 8: Impairment)*.

The underlying assets and liabilities of the non-core operating groups were classified as Held for Sale per the requirements of *IFRS 5: Non-current Assets Held for Sale and Discontinued Operations* in separately identifiable disposal groups (refer to *note 20: Assets and liabilities classified as Held for Sale).*

Further to this, the Group remeasured the non-core operating groups by calculating the subsequent fair value less costs to sell as at 30 June 2020. The subsequent fair value measurement is detailed on the following page.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

6. DISCONTINUED OPERATIONS continued

The loss from discontinued operations is analysed as follows:

	2020 Rm	2019 Rm
Revenue	**6 693**	12 128
Cost of Sales	**(6 602)**	(11 864)
Gross earnings	**91**	264
Other earnings	**126**	118
Operating expenses	**(430)**	(916)
(Loss) / Earnings from equity-accounted investments	**(2)**	4
Operating loss	**(215)**	(530)
Impairment loss on goodwill, intangible assets and property, plant & equipment	**-**	(78)
Gain on disposal of property, plant & equipment	**36**	36
Fair value adjustments on properties and disposal groups classified as Held for Sale	**(13)**	(51)
Loss before financing transactions	**(192)**	(623)
Net finance expenses	**(110)**	(34)
Loss before taxation	**(302)**	(657)
Taxation	**11**	(96)
Loss for the period	**(291)**	(753)
Attributable to:		
Equity-holders of the parent	**(291)**	(753)
Items by nature		
Capital expenditure	**25**	113
Net operating loss before interest, taxation, depreciation and amortisation (EBITDA)	**(215)**	(530)
Results per share (cents)		
Loss - basic	**(1,5)**	(4,7)
Loss - diluted	**(1,5)**	(4,7)
Net cash flows in relation to discontinued operations:		
Cash outflow from operating activities	**(313)**	(843)
Cash inflow from investing activities	**108**	102
Cash outflow from financing activities	**(57)**	(8)

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

7. SEGMENTAL REPORT

The reportable segments of the Group are components:

- 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 as required per *IFRS 8 Operating Segments*.

Prior to the outcome of the strategic review and management's implementation of a robust plan to reshape and refocus the operating structure of the Group, the following five reportable segments were presented which were largely organised and managed separately according to the nature of products and services provided:

- *Construction and Engineering: Australasia and Asia;*
- *Mining;*
- Other and Eliminations;
- *Construction and Engineering: South Africa and rest of Africa; and*
- *Manufacturing and Processing.*

In line with the findings of the strategic review and as discussed in *note 20: Assets and liabilities classified as Held for Sale*, the *Construction and Engineering: South Africa and rest of Africa* and *Manufacturing and Processing* reportable segments are presented and disclosed as discontinued operations*. The Construction and Engineering: Australasia and Asia, Mining* and *Other and Eliminations* reporting segments are presented as continuing operations.

The reportable segments are presented per their classification as continuing and discontinued in the disclosure of the segmental statement of comprehensive earnings and segmental statement of financial position in this note.

Details on the reportable segments are as follows:

7.1 Continuing operations

7.1.1 Construction and Engineering: Australasia and Asia

This segment comprises McConnell Dowell and is divided into the following business units: Australia, New Zealand and Pacific, Built Environs and Southeast Asia.

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.

7.1.2 Mining

This segment comprises Moolmans and operates in the open cut and underground mining sectors. Revenues from this segment are derived from mining-related activities.

7.1.3 Other and Eliminations

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

7.2 Discontinued operations

7.2.1 Construction and Engineering: South Africa and rest of Africa

This segment includes Aveng Construction: South Africa (formerly Aveng Grinaker-LTA) and Aveng Capital Partners (ACP). Aveng Construction: South Africa is divided into the following business units: Aveng Construction Building and Coastal, Aveng Construction Civil Engineering (including Rand Roads and GEL), Aveng Construction Mechanical & Electrical and Aveng Water.

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

During the current year, the following businesses were sold: Aveng Construction Building and Coastal, Aveng Construction Civil Engineering, Aveng Construction Rand Roads and Aveng Construction Mechanical & Electrical.

The Group remained responsible for a limited number of contracts which were retained by the Group following the disposal of the businesses mentioned above. The Group expects that these will be completed in the next 12 months. These projects continue to be classified as part of the discontinued operations within *Construction and Engineering: South Africa and Rest of Africa*.

7.2.2 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 automotive OEM and rail sectors across the Group's value chain locally and internationally.

Aveng Manufacturing business units include Aveng Automation and Control Solutions (ACS), Aveng Dynamic Fluid Control (DFC), Aveng Duraset, Aveng Infraset and Aveng Rail.

During the current year, Aveng Dynamic Fluid Control (DFC) was sold. In the prior year, Aveng Rail was sold.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

7. SEGMENTAL REPORT continued

	CONTINUING OPERATIONS								DISCONTINUED OPERATIONS					
	Construction and Engineering: Australasia and Asia		Mining		Other and Eliminations		Total		Construction and Engineering: South Africa and rest of Africa		Manufacturing and Processing		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Assets														
Goodwill arising on consolidation	**100**	100	**-**	-	**-**	-	**100**	100	**-**	-	**-**	-	**-**	-
Intangible assets	**-**	-	**15**	20	**-**	19	**15**	39	**-**	-	**-**	-	**-**	-
Property, plant and equipment	**837**	510	**2 263**	2 250	**78**	54	**3 178**	2 814	**2**	-	**-**	-	**2**	-
Equity-accounted investments	**2**	2	**3**	3	**30**	12	**35**	17	**-**	28	**-**	-	**-**	28
Infrastructure investments	**-**	-	**-**	-	**142**	142	**142**	142	**117**	-	**-**	-	**117**	-
Deferred taxation	**804**	618	**-**	-	**9**	4	**813**	622	**-**	-	**-**	-	**-**	-
Long-term receivables	**-**	-	**-**	-	**43**	-	**43**	-	**-**	-	**-**	-	**-**	-
Derivative instruments	**-**	-	**10**	-	**-**	-	**10**	-	**-**	-	**-**	-	**-**	-
Amounts due from contract customers	**2 084**	2 213	**369**	614	**-**	(206)	**2 453**	2 621	**78**	-	**-**	-	**78**	-
Inventories	**15**	40	**171**	174	**-**	-	**186**	214	**1**	-	**-**	-	**1**	-
Trade and other receivables	**201**	117	**43**	50	**42**	27	**286**	194	**72**	-	**-**	-	**72**	-
Taxation receivable / (payable)	**39**	33	**(16)**	(15)	**17**	14	**40**	32	**-**	17	**1**	(6)	**1**	11
Cash and bank balances	**1 673**	1 024	**93**	72	**(208)**	(121)	**1 558**	975	**46**	259	**151**	371	**197**	630
Assets Held for Sale	**-**	-	**-**	-	**-**	-	**-**	-	**33**	921	**2 276**	2 922	**2 309**	3 843
Total assets	**5 755**	4 657	**2 951**	3 168	**153**	(55)	**8 859**	7 770	**349**	1 225	**2 428**	3 287	**2 777**	4 512
Liabilities														
Deferred taxation	**155**	73	**197**	236	**(186)**	(300)	**166**	9	**-**	36	**-**	41	**-**	77
Borrowings and other liabilities	**436**	178	**217**	178	**1 727**	1 789	**2 380**	2 145	**-**	-	**-**	-	**-**	-
Payables other than contract related	**-**	-	**-**	-	**148**	136	**148**	136	**-**	-	**-**	-	**-**	-
Employee-related payables	**387**	309	**118**	141	**57**	78	**562**	528	**11**	-	**-**	-	**11**	-
Trade and other payables	**1 697**	1 657	**454**	529	**264**	469	**2 415**	2 655	**349**	28	**-**	-	**349**	28
Derivative instruments	**-**	-	**-**	1	**-**	-	**-**	1	**-**	-	**-**	-	**-**	-
Amounts due to contract customers	**1 159**	645	**103**	169	**-**	(1)	**1 262**	813	**28**	-	**-**	-	**28**	-
Bank overdraft	**-**	-	**-**	-	**424**	-	**424**	-	**-**	-	**-**	-	**-**	-
Liabilities Held for Sale	**-**	-	**-**	-	**-**	-	**-**	-	**16**	1 064	**2 035**	2 372	**2 051**	3 436
Total liabilities	**3 834**	2 862	**1 089**	1 254	**2 434**	2 171	**7 357**	6 287	**404**	1 128	**2 035**	2 413	**2 439**	3 541

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

7. SEGMENTAL REPORT continued

	CONTINUING OPERATIONS								DISCONTINUED OPERATIONS					
	Construction and Engineering: Australasia and Asia		Mining		Other and Eliminations		Total		Construction and Engineering: South Africa and rest of Africa		Manufacturing and Processing		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue	**10 297**	9 527	**3 955**	4 143	**(67)**	(122)	**14 185**	13 548	**1 865**	4 617	**4 828**	7 511	**6 693**	12 128
Construction contract revenue	**10 297**	9 527	**3 943**	4 120	**(16)**	(71)	**14 224**	13 576	**1 862**	4 614	**-**	153	**1 862**	4 767
Sale of goods	**-**	-	**1**	11	**(52)**	(52)	**(51)**	(41)	**-**	-	**4 758**	7 282	**4 758**	7 282
Other revenue	**-**	-	**11**	12	**1**	1	**12**	13	**3**	3	**16**	-	**19**	3
Transport revenue	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**54**	76	**54**	76
Cost of sales	**(9 704)**	(8 537)	**(3 741)**	(4 325)	**140**	98	**(13 305)**	(12 764)	**(2 007)**	(4 704)	**(4 595)**	(7 160)	**(6 602)**	(11 864)
Gross earnings / (loss)	**593**	990	**214**	(182)	**73**	(24)	**880**	784	**(142)**	(87)	**233**	351	**91**	264
Other earnings	**42**	3	**(31)**	(8)	**26**	(3)	**37**	(8)	**43**	12	**83**	106	**126**	118
Operating expenses	**(784)**	(846)	**(144)**	(181)	**(289)**	(304)	**(1 217)**	(1 331)	**(73)**	(330)	**(357)**	(586)	**(430)**	(916)
(Loss) / earnings from equity-accounted investments	**(13)**	(37)	**(1)**	(1)	**(3)**	4	**(17)**	(34)	**(2)**	4	**-**	-	**(2)**	4
Net operating earnings / (loss)	**(162)**	110	**38**	(372)	**(193)**	(327)	**(317)**	(589)	**(174)**	(401)	**(41)**	(129)	**(215)**	(530)
Impairment loss on goodwill, intangible assets and property, plant and equipment	**-**	-	**(132)**	(163)	**(15)**	-	**(147)**	(163)	**-**	(6)	**-**	(72)	**-**	(78)
Impairment loss on equity-accounted investments	**-**	-	**-**	-	**(21)**	-	**(21)**	-	**-**	-	**-**	-	**-**	-
Gain on redemption of convertible bond	**-**	-	**-**	-	**-**	102	**-**	102	**-**	-	**-**	-	**-**	-
Gain on disposal of assets Held for Sale	**-**	-	**-**	-	**24**	203	**24**	203	**-**	-	**-**	-	**-**	-
Gain on disposal of subsidiaries	**-**	-	**-**	-	**10**	41	**10**	41	**-**	-	**-**	-	**-**	-
Gain / (loss) on disposal of property, plant & equipment	**45**	-	**(5)**	-	**(15)**	-	**25**	-	**19**	21	**17**	15	**36**	36
Fair value adjustments on properties and disposal groups classified as Held for Sale	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(13)**	(51)	**(13)**	(51)
Earnings / (loss) before financing transactions	**(117)**	110	**(99)**	(535)	**(210)**	19	**(426)**	(406)	**(155)**	(386)	**(37)**	(237)	**(192)**	(623)
Net finance income / (expenses)	**(43)**	(15)	**(34)**	(12)	**(242)**	(345)	**(319)**	(372)	**1**	13	**(111)**	(47)	**(110)**	(34)
Earnings / (Loss) before taxation	**(160)**	95	**(133)**	(547)	**(452)**	(326)	**(745)**	(778)	**(154)**	(373)	**(148)**	(284)	**(302)**	(657)
Taxation	**(36)**	(16)	**(5)**	(40)	**(39)**	(93)	**(80)**	(149)	**6**	(94)	**5**	(2)	**11**	(96)
Earnings / (Loss) for the period	**(196)**	79	**(138)**	(587)	**(491)**	(419)	**(825)**	(927)	**(148)**	(467)	**(143)**	(286)	**(291)**	(753)

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

7. SEGMENTAL REPORT continued

	CONTINUING OPERATIONS								DISCONTINUED OPERATIONS					
	Construction and Engineering: Australasia and Asia		Mining		Other and Eliminations		Total		Construction and Engineering: South Africa and rest of Africa		Manufacturing and Processing		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Capital expenditure	**148**	137	**609**	584	**5**	-	**762**	721	**-**	31	**25**	82	**25**	113
Net operating earnings / (loss)	**(162)**	110	**38**	(372)	**(193)**	(327)	**(317)**	(589)	**(174)**	(401)	**(41)**	(129)	**(215)**	(530)
Depreciation	**280**	127	**600**	612	**5**	3	**885**	742	**-**	-	**-**	-	**-**	-
Amortisation	**-**		**4**	4	**5**	4	**9**	8	**-**	-	**-**	-	**-**	-
Net operating earnings / (loss) before interest, taxation, depreciation and amortisation (EBITDA)	**118**	237	**642**	244	**(183)**	(320)	**577**	161	**(174)**	(401)	**(41)**	(129)	**(215)**	(530)

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

7. SEGMENTAL REPORT continued

The Group operates in five principal geographical areas:

	2020 Revenue Rm	2019 Revenue Rm	2020 Segment assets Rm	2019 Segment assets Rm	2020 Capital expenditure Rm	2019 Capital expenditure Rm
South Africa	**10 019**	15 033	**6 485**	5 019	**638**	697
Rest of Africa including Mauritius	**509**	944	**201**	2 540	**1**	-
Australia	**6 129**	5 181	**3 632**	1 499	**-**	76
New Zealand	**2 751**	2 116	**741**	1 031	**70**	44
Southeast Asia	**1 417**	2 105	**534**	2 128	**45**	17
Other regions	**53**	297	**43**	65	**33**	-
	20 878	25 676	**11 636**	12 282	**787**	834

8. IMPAIRMENT

The Group performed an annual impairment test as at 30 June 2020. The test involves the assessment of internal and external qualitative factors for each CGU that may constitute an indicator of impairment. The test may be extended to individual assets in instances of underutilisation, obsolescence, physical damage or material decline in the economic performance of the assets. For Held for Sale CGU's, the Group performed a subsequent impairment assessment whereby the carrying values of the CGU's were remeasured at the fair value less costs of disposal in line with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5)*.

8.1 CGU's of the Group in the scope of IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

Initial classification as Held for Sale

As detailed in the note *6: Discontinued Operations,* the Board made the decision in the prior year that the operating groups of the following reportable segments no longer form part of the overall long-term strategy of the Group:

- *Construction and Engineering: South Africa and rest of Africa; and*
- *Manufacturing and Processing.*

The intention of the Board to discontinue the operations of these reportable segments and the subsequent classification of the underlying assets and liabilities as Held for Sale are indicators of impairment – refer to *note 20: Assets and liabilities classified as Held for Sale.*

The following business units were deemed to be individual CGUs for which individual impairment assessments were performed in terms of *IFRS 5* at 30 June 2020:

Construction and Engineering: South Africa and rest of Africa

- Aveng Construction Ground Engineering (GEL)

Manufacturing and Processing

- Aveng Trident Steel;
- Aveng Automation and Control Solutions (ACS);
- Aveng Duraset; and
- Aveng Infraset

Subsequent remeasurement of CGU's Held for Sale to Fair Value less costs of disposal

As at 30 June 2020, management determined the recoverable amounts of the CGUs within the *Construction and Engineering: South Africa and rest of Africa* and *Manufacturing and Processing* segments to be fair value less cost of disposal. The Group does not expect that the fair value less costs of disposal of the above-mentioned CGUs differ materially from the value determined at 30 June 2019.

Except for the CGU's identified on the following page, it has been determined that the fair value less costs of disposal of all other CGU's exceed the carrying amount, and no fair value adjustment is required for any of these CGUs.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

8. IMPAIRMENT

8.1 CGU's of the Group in the scope of IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations continued

Subsequent remeasurement of CGU's Held for Sale to Fair Value less costs of disposal continued

In the current year, the Group had finalised the sale of the following CGUs:

Construction and Engineering: South Africa and rest of Africa

- Aveng Construction Building and Civil Engineering;
- Aveng Construction Mechanical and Electrical; and
- Aveng Construction Rand Roads

Manufacturing and Processing

- Aveng Dynamic Fluid Control (DFC)

As at 30 June 2020, a disposal agreement for R5 million had been concluded for Aveng Construction GEL. The effective date of the transaction is 1 July 2020. Refer to *note 49: Events after the reporting period*.

The Group used the binding offer to sell to determine the fair value less cost of disposal amount for the CGU at 30 June 2020. Based on this binding offer to sell, it has been determined that the carrying amount exceeds the fair value less costs to dispose, and a fair value adjustment in line with *IFRS 5* amounting to R13 million was required. Refer to *note 20: Assets and liabilities classified as Held for Sale.*

The CGU fair values were all categorised as level 3 per the *IFRS 13 Fair Value Measurement* hierarchy based on the inputs used in the valuation techniques.

The valuation techniques used to determine the fair values of the CGUs were:

- The Enterprise EBITDA multiple method (EV / EBITDA Multiple) (Market approach per *IFRS 13 Fair Value Measurement*); and
- The Discounted cash flow method (DCF) (Income approach per *IFRS 13 Fair Value Measurement*).

The fair value valuations were determined based on management's past experience and best estimates. The cash flows incorporated in the valuation models were based on the approved budgets for the 2020 financial year, as well as forecasts until 2023, utilising the following assumptions.

EV / EBITDA Multiple valuation method

Risk adjusted peer average EBITDA multiples – The Group calculated the average peer EBITDA multiples of local and international competitors adjusted for risks a market participant would incorporate in the valuation. The multiple applied in the CGU impairment assessments was 2.1x to 4.8x.

DCF valuation method

Discount rate – The discount rate used In the DCF valuations is the weighted average cost of capital (WACC). The WACC is based on a market-related peer average rate adjusted for entity-specific risks a market participant would incorporate. The discount rate range of the CGU impairment assessments was between 18,9% and 23,9%.

Terminal value exit EBITDA multiple – The terminal value is calculated by multiplying the terminal EBITDA (EBITDA as forecasted for 2022) with the average peer EBITDA multiple of local and international competitors adjusted for risks a market participant would incorporate. The range of the multiples applied in the CGU impairment assessments was between 4.0x and 4.4x.

Period of projection – The period of projection is impacted by the ability of management to forecast cash flows in the future. Forecasting has been performed for a period of three years with a terminal value exit EBITDA multiple applied to determine the terminal value.

The cost of disposal, being the incremental costs directly attributable to the disposal of the assets, comprise primarily of the financial consulting costs, legal and audit fees. Management used their best estimate in determining the cost of disposal for each CGU based on the complexity of the potential deal, the deal valuation and the costs associated with similar transactions in the past.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

8. IMPAIRMENT continued

8.1 CGU's of the Group in the scope of *IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations* continued

Sensitivity analysis

The impact on the impairment losses recognised based on sensitivities applied to the assumptions of the valuation methods are as follows:

Assumption	Sensitivity applied	Impact on current impairment charge
EV / EBITDA Multiple valuation method		
Risk adjusted peer average EBITDA multiples	Increase multiple by 0,5x	**No material impact**
Risk adjusted peer average EBITDA multiples	Decrease multiple by 0,5x	**No material impact**
DCF valuation method		
Discount rate	Increase by 100 basis points	**No material impact**
Discount rate	Decrease by 100 basis points	**No material impact**
Terminal value exit EBITDA multiple	Increase multiple by 0,5x	**No material impact**
Terminal value exit EBITDA multiple	Decrease multiple by 0,5x	**No material impact**

8.2 Assets in the scope of *IAS 36 – Impairments*

Goodwill arising on consolidation

A compulsory impairment assessment of goodwill allocated to the McConnell Dowell CGU was performed in the current year. The McConnell Dowell CGU falls under the *Construction and Engineering: Australasia and Asia* reportable segment. The recoverable amount of the CGU, being the value-in-use based on a discount rate of 12%, materially exceeded the carrying amount of the CGU and hence no goodwill impairment loss was recognised in the current year.

CGU's of the Group in the scope of *IAS 36 - Impairments*

The Group performed an impairment assessment on the Aveng Moolmans CGU at 30 June 2020. No impairment was required for this CGU at 30 June 2020. Aveng Moolmans falls under the Mining reportable segment.

Other individual assets in the scope of *IAS 36 - Impairments*

An impairment assessment was performed on plant and equipment accounted for in Aveng Moolmans.

An impairment assessment was performed on property, plant & equipment at Aveng Moolmans, which is part of the *Mining* reportable segment. As at 30 June 2020, the Group determined that there was an additional impairment of R132 million (30 June 2019: R163 million) required for Aveng Moolmans relating to individual assets in the scope of *IAS 36 – Impairments*. The recoverable amount of these individual assets was based on their fair value less cost of disposal. The fair value of these assets falls within *Level 2* of the hierarchy identified in *IFRS 13* and was calculated using the prices of similar assets within the market.

An impairment assessment was performed on intangible assets accounted for in *Other and Eliminations* determined that an impairment of R15 million was required.

As disclosed in *note 12: Equity accounted investments* impairment charges of R10 million was recognised on the Group's investment in REHM Grinaker Property Co Limited and REHM Grinaker Construction Co Limited as these investments are classified as Held for Sale at 30 June 2020. The recoverable amount of these investments was determined using level 2; directly observable market inputs (fair value less cost of disposal using an offer to purchase). An amount of R11 million was recognised on the Steeledale accounts receivable loan at 30 June 2020 as the Group no longer considers that this amount to be recoverable.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

8. IMPAIRMENT continued

8.3 Total impairment losses for the year

The total impairment losses for the year per CGU and individual assets are summarised as follows:

	2020 Property, plant and equipment Rm	2020 Intangible assets Rm	2020 Equity-accounted investments	2019 Property, plant and equipment Rm	2019 Intangible assets Rm
CGUs in the scope of IFRS 5					
Aveng Construction GEL	-	-	-	4	-
Aveng Construction Rand Roads	*	*	-	2	-
Aveng DFC	*	*	-	38	34
Other individual assets in the scope of IAS 36					
Aveng Moolmans	132	-	-	163	-
Other and Eliminations	-	15	11	-	-
Aveng Capital Partners	-	-	10		
	132	15	21	207	34

* *The sale of these business units was concluded in the current year. No additional impairment is required at 30 June 2020.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises owned and leased assets that do not meet the definition of investment property.

	2020 Rm	2019 Rm
Owned property, plant & equipment	2 741	2 814
Right-of-use assets*	439	-
	3 180	2 814

* *The Group has applied IFRS 16 using the modified retrospective approach. As such, there is no impact on prior year property, plant & equipment.*

Reconciliation of property, plant and equipment

	Owned Land and buildings Rm	Right-of-use Land and buildings Rm	Owned equipment and vehicles Rm	Right-of-use plant, equipment and vehicles Rm	Total Rm
2020					
Cost					
Opening balance**	94	-	8 280	13	8 387
Adoption of *IFRS 16 Leases* accounting standard*	-	296	-	261	557
Additions	1	91	761	7	860
Disposals	(14)	-	(628)	-	(642)
Transfers	-	-	(4)	-	(4)
Classified as Held for Sale - transferred in	-	-	25	-	25
Foreign exchange movements	(16)	46	96	17	143
	65	433	8 530	298	9 326
Accumulated depreciation and impairment					
Opening balance**	(30)	-	(5 533)	(10)	(5 573)
Depreciation***	(2)	(85)	(611)	(187)	(885)
Impairment	(2)	-	(130)	-	(132)
Disposals	-	-	491	-	491
Transfers	-	-	4	-	4
Classified as Held for Sale - transferred in	-	-	(23)	-	(23)
Foreign exchange movements	20	(3)	(38)	(7)	(28)
	(14)	(88)	(5 840)	(204)	(6 146)
	51	345	2 690	94	3 180

* *The Group has adopted* IFRS 16 Leases *using the modified retrospective approach, with the effect of initially applying the standard recognised at the transition date (ie 1 July 2019). Accordingly, the information presented for 30 June 2019 has not been restated. The adoption of* IFRS 16 *has impacted the property, plant and equipment through the recognition of right-of-use assets amounting to R557 million at 1 July 2019.*

** *The opening balance represents* leased plant, equipment and vehicles *shown as assets recognised under finance leases in IAS 17. The Group classifies all leases, including these balances, as right-of-use assets under IFRS 16.*

*** *Depreciation included in cost of sales amounted to R824 million and depreciation included in operating expenses amounted to R61 million. Refer to note 30: Cost of sales and note 32: Operating expenses.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

9. PROPERTY, PLANT AND EQUIPMENT continued

Reconciliation of property, plant and equipment

	Land and buildings Rm	Leased plant, equipment and vehicles Rm	Owned equipment and vehicles Rm	Total Rm
2019				
Cost				
Opening balance	37	16	7 885	7 938
Additions	4	-	717	721
Disposals	-	(3)	(475)	(478)
Transfers	-	-	(118)	(118)
Classified as Held for Sale - transferred in	53	-	99	152
Foreign exchange movements	-	-	172	172
	94	13	8 280	8 387
Accumulated depreciation and impairment				
Opening balance	(23)	(13)	(4 892)	(4 928)
Depreciation***	(7)	-	(735)	(742)
Impairment	-	-	(163)	(163)
Disposals	-	3	290	293
Transfers	-	-	118	118
Foreign exchange movements	-	-	(151)	(151)
	(30)	(10)	(5 533)	(5 573)
	64	3	2 747	2 814

*** *Depreciation included in cost of sales amounted to R736 million and depreciation included in operating expenses amounted to R6 million. Refer to note 30: Cost of sales and note 32: Operating expenses.*

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered offices of the operating entities within the Group.

Pledged as security

The Group has pledged certain plant and machinery as security for certain interest-bearing borrowings (refer to *note 22: Borrowings and other liabilities*).

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

10. GOODWILL ARISING ON CONSOLIDATION

	2020 Rm	2019 Rm
Cost		
Opening balance	**1 455**	1 455
Disposals	**(333)**	-
	1 122	1 455
Accumulated impairment		
Opening balance	**(1 355)**	(1 355)
Disposals	**333**	-
	(1 022)	(1 355)
Carrying amount	**100**	100
Allocation of goodwill to CGUs		
The carrying amount of goodwill has been allocated to the following CGU:		
Construction and Engineering: Australia and Asia - McConnell Dowell	**100**	100

11. INTANGIBLE ASSETS

Reconciliation of intangible assets

	Computer software Rm	Total Rm
2020		
Cost		
Opening balance	**247**	**247**
Disposals	**(217)**	**(217)**
	30	**30**
Accumulated amortisation and impairment		
Opening balance	**(208)**	**(208)**
Amortisation	**(9)**	**(9)**
Disposals	**217**	**217**
Impairments	**(15)**	**(15)**
	(15)	**(15)**
Carrying amount	**15**	**15**
2019		
Cost		
Opening balance	247	247
	247	247
Accumulated amortisation and impairment		
Opening balance	(200)	(200)
Amortisation	(8)	(8)
	(208)	(208)
Carrying Amount	39	39

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

12. EQUITY-ACCOUNTED INVESTMENTS

	% holding	2020 Rm	2019 Rm
Opening balance		**45**	73
Loans paid		**-**	(6)
Impairment of investment in REHM Grinaker Property Co Limited REHM Grinaker Construction Co Limited		**(10)**	-
Impairment of loans receivable from Steeledale Proprietary Limited		**(11)**	-
Disposal of equity-accounted investments - other		**(2)**	-
Share of loss after taxation and dividends - amount recorded in the comprehensive earnings		**(17)**	(30)
Foreign currency translation movement		**13**	8
		18	45
Classified as Held for Sale - transferred in*		**30**	-
Classified as Held for Sale - transferred out**		**(13)**	-
		35	45
Reconciliation of investments			
Investments (including loan balances)			
Oakleaf Investment Holdings 86 Proprietary Limited*	50	**30**	-
REHM Grinaker Property Co Limited**	43	**7**	19
REHM Grinaker Construction Co Limited**	43	**6**	9
Dutco McConnell Dowell Middle East Limited	50	**2**	2
Steeledale Proprietary Limited	30	**-**	11
Other***		**3**	4
		48	45
Classified as Held for Sale - transferred out		**(13)**	-
		35	45

* *The investment in Oakleaf Holdings 86 Proprietary Limited no longer met the classification requirements of Held for Sale and was transferred from Assets Held for Sale. Refer to* note 20: Assets and liabilities classified as Held for Sale.

** *The investment in REHM Grinaker Property Co Limited and REHM Grinaker Construction Co Limited met the classification requirements of Held for Sale and was transferred to Assets Held for Sale. Refer to* note 20: Assets and liabilities classified as Held for Sale.

*** *None of the investments are individually significant to warrant separate disclosure in terms of IFRS 12 Disclosure of interest in other Entities.*

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:

	2020 Rm	2019 Rm
Aggregate carrying amount of associates	**35**	45
	35	45
The Group's share of results of operations of equity-accounted investments are summarised below:		
Associates		
Loss for the year - continuing operations	**(17)**	(30)
Total share of loss from equity-accounted investments	**(17)**	(30)
Impairment on equity-accounted investments		
Impairment loss on investments in associates	**(10)**	-
Impairment loss on loans receivable from associates	**(11)**	-
Total impairment on equity-accounted investments	**(21)**	-

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

12. 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 R81 million (June 2019: R190 million). For detail on commitments, refer to *note 44: Contingent liabilities and assets* for the Group's contingent liabilities relating to its associates and joint ventures.

13. INFRASTRUCTURE INVESTMENTS

	2020 Rm	2019 Rm
South African infrastructure investments		
Financial investments	**259**	142

The investments in Imvelo Concession Company Proprietary Limited (*Imvelo*) and Firefly Investments 238 Proprietary Limited (*Firefly*) are managed by ACP and accounted for under the *Construction and Engineering: South Africa* and rest of Africa reportable segment. These investments do not form part of the Group's long-term strategy and were classified as Held for Sale in 2018. At 30 June 2020, these investments no longer met the classification requirements to be Held for Sale as the Group did not receive reasonable offers to purchase the assets in the current year. Even though the infrastructure investments do not meet the *IFRS 5* subsequent measurement criteria at 30 June 2020, management remains committed to dispose of these assets per the strategy announced in the prior years and is in an active program to locate a suitable buyer (refer to *Note 20: Assets and liabilities classified as Held for Sale*).

The investment in Dimopoint Proprietary Limited (*Dimopoint*) is classified as a financial asset at fair value through profit or loss. Please refer to *Note 47: Fair value of assets and liabilities* for details regarding the valuation methodology and other disclosures required by *IFRS 13 Fair value measurement.* There is no fair value adjustment required in the current year.

	2020 Rm	2019 Rm
Opening balance	**142**	142
Classified as Held for Sale – transferred in	**117**	-
	259	142
Balance at the end of the year comprises:		
Dimopoint Proprietary Limited (Dimopoint)	**142**	142
Imvelo Concession Company Proprietary Limited (Imvelo)	**58**	-
Firefly Investments 238 Proprietary Limited (Firefly)	**59**	-
	259	142

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

14. DEFERRED TAXATION

	2020 Rm	2019 Rm
Reconciliation of deferred taxation asset		
At the beginning of the year	**622**	747
Recognised in earnings or loss - current year	**(14)**	(27)
Recognised in earnings or loss - adjustment for prior year	**24**	-
Foreign currency translation movement and other	**144**	(185)
Reallocation from deferred taxation liability*	**37**	87
	813	622
Reconciliation of deferred taxation liability		
At the beginning of the year	**(86)**	(49)
Recognised in earnings or loss - current year	**(57)**	(104)
Recognised in earnings or loss - adjustment for prior year	**38**	1
Reallocation to deferred taxation asset*	**(37)**	(87)
Foreign currency translation movement and other	**(24)**	153
	(166)	(86)
Deferred taxation asset balance at the year-end comprises		
Accelerated capital allowances	**120**	(125)
Provisions	**93**	193
Contracts	**175**	161
Other	**(148)**	(158)
Assessed losses carried forward	**573**	551
	813	622
Deferred taxation liability balance at the year-end comprises		
Accelerated capital allowances	**(87)**	(36)
Provisions	**1**	(1)
Contracts	**-**	(85)
Other	**(80)**	36
	(166)	(86)

* *The reclassifications of deferred tax liabilities to deferred tax assets are as a result of the changes in deferred tax positions of the underlying assets and liabilities*

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

As at June 2020 the Group had unused taxation losses of R15 812 million (2019: R14 097 million) available for offset against future profits. A deferred taxation asset has been recognised in respect of R1 631 million (2019: R1 967 million) of such losses. No deferred taxation asset has been recognised in respect of the remaining R14 181 million (2019: R12 130 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 2021 to 2025, which is the key evidence that supports the recognition of deferred taxation assets. The forecast specifically focused on Aveng Africa Proprietary Limited and Aveng Australia Holdings Proprietary Limited.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

15. DERIVATIVE INSTRUMENTS

	2020 Net fair value Rm	2019 Net fair value Rm
Non-current assets		
Derivatives designated as hedging instruments	**1**	-
	1	-
Current assets		
Derivative instruments at fair value through profit or loss	**9**	-
	9	-
Current liabilities		
Derivatives designated as hedging instruments	**-**	1
	-	1

Derivative instruments subject to enforceable netting agreements amounted to a net asset of R10 million (2019: Net liabilities of R1 million). The Group held no collateral against the net derivative asset exposure. International Swaps and Derivatives Association (*ISDA*) Master Agreements are utilised by the Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other. Refer to *note 48: Offsetting financial assets and financial liabilities* for further information.

Fair value

The amounts disclosed represent the fair value as at the reporting date of all derivative instruments held. The extent to which derivative instruments are favourable (assets) or unfavourable (liabilities) and therefore the aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

The fair values of derivative instruments and the foreign exchange risk management policies applied by the Group are disclosed in *note 47: Fair value of assets and liabilities* and *note 46: Risk management* respectively.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

16. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS

	2020 Rm	2019 Rm
Uncertified claims and variations (underclaims)*[1]	**652**	1 031
Contract contingencies	**(290)**	(361)
Progress billings received (including overclaims)[2]	**(1 285)**	(771)
Uncertified claims and variations less progress billings received	**(923)**	(101)
Contract receivables[3]	**2 121**	1 916
Provision for expected credit losses – specific debtors	**-**	-
Provision for expected credit losses	**(1)**	(1)
Retention receivables[4]	**49**	36
	1 246	1 850
Amounts received in advance[5]	**(5)**	(42)
Net amounts due from contract customers	**1 241**	1 808
Disclosed on the statement of financial position as follows:		
Uncertified claims and variations*[1]	**652**	1 031
Contract contingencies	**(290)**	(361)
Contract and retention receivables	**2 170**	1 952
Provision for expected credit losses	**(1)**	(1)
Amounts due from contract customers	**2 531**	2 621
Progress billings received	**(1 285)**	(771)
Amounts received in advance	**(5)**	(42)
Amounts due to contract customers	**(1 290)**	(813)
Net amounts due from contract customers	**1 241**	1 808

* *Provisions have been netted off against uncertified claims and variations.*
[1] *Includes revenue not yet certified – recognised over time / 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. These conditions are anticipated to be fulfilled within the following 12 months.*
[5] *Advances are amounts received from the customer before the related work is performed.*

The balances included in the table above relate only to assets not Held for Sale. Refer to *note 20: Assets and Liabilities classified as Held for Sale* for disclosure of the disposal groups' amounts due from / (to) contract customers classified as Held for Sale.

The net amounts due from contract customers includes R297 million (2019: R760 million) which is subject to protracted legal proceedings.

Expected credit losses

Amounts due from contract customers

As at 30 June 2020, the Group has amounts due from contract customers of R1 241 million (2019: R1 808 million) which is net of the provision for expected credit loss of R1 million (2019: R1 million).

Trade receivables

As at 30 June 2020, the Group has trade receivables of R6 million (2019: R3 million). The provision for expected credit loss relating to trade receivables is R3 million (2019: less than R1 million).

The provision for expected credit losses are only material for amounts due from contract customers and trade receivables. The Group has elected to measure the provision for ECL at an amount equal to lifetime ECLs.

Impact of COVID-19

The assessment of recoverability of amounts due from contract customers and trade receivables at 30 June 2020 has considered the impacts of COVID-19 and no material recoverability issues have been identified.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

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

Expected credit losses continued

Set out below is the movement in the provision for expected credit losses:

	2020 Rm	2019 Rm
Opening Balance	**1**	-
Initial adoption of *IFRS 9* ECL impairment model (1 July 2018)	**-**	6
Movement in the current year	*****	*
Classified as Held for Sale – transferred in / (out)	**3**	(5)
	4	**1**
Attributable to:		
Amounts due from contract customers	**1**	1
Trade receivables	**3**	*
	4	**1**

* *Amounts less than R1 million*

17. TRADE AND OTHER RECEIVABLES

	2020 Rm	2019 Rm
Financial assets		
Trade receivables	**6**	3
Sundry receivables	**358**	170
Provision for credit losses - specific debtors	**(26)**	(2)
Provision for expected credit losses	**(3)**	*
Non-financial assets		
Prepayments	**23**	23
	358	**194**

The balances included in the table above relate only to assets not Held for Sale. Refer to *note 20: Assets and Liabilities classified as Held for Sale* for disclosure of the disposal groups' trade and other receivables classified as Held for Sale.

The carrying amount of trade and other receivables approximates its fair value due to its short-term maturity.

Credit terms

Trade and other receivables comprise amounts owing to the Group in the normal course of business. Terms vary in accordance with contracts of supply and service and across business units but are generally on 30 to 60-day terms from date of invoice. Indebtedness is generally interest free while within the terms of the original contract. No customers had sales larger than 10% of total revenue.

Refer to *note 46: Risk management* for further details regarding the credit risk exposure.

Expected credit losses on Trade and other receivables

As at 30 June 2020, the Group has trade and other receivables of R358 million (2019: R194 million). The provision for expected credit losses on trade receivables is less than R1 million. Refer to note *16: Amounts due from / (to) contract customers - allowances for Expected Credit Losses* for additional information.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

18. INVENTORIES

	2020 Rm	2019 Rm
Consumables	**255**	279
Allowance for obsolete inventory	**(68)**	(65)
	187	214
Reconciliation of movement in allowance for obsolete inventory		
Opening balance	**65**	20
Allowance created	**186**	148
Allowance released	**(183)**	(103)
	68	65
Inventories utilised in cost of sales during the year	**1 049**	1 248

The balances included in the table above relate only to assets not Held for Sale. Refer to *note 20: Assets and Liabilities classified as Held for Sale* for disclosure of the disposal groups' inventories classified as Held for Sale.

There is no inventory included in the Mining and Construction and Engineering: Australasia and Asia segments that have been written off in the current year.

The value of inventory carried at net realisable value amounts to R160 million (2019: R174 million), with the balance carried at cost.

19. CASH AND BANK BALANCES

	2020 Rm	2019 Rm
Cash and bank balances	**1 755**	1 605
Less: Bank overdrafts	**(424)**	-
	1 331	1 605
Cash and bank balances at the end of the period include the following cash and bank balances that are restricted from immediate use by the general Group, and is only available for use by the respective joint operations:		
Cash held by Aveng Zimbabwe*	**1**	8
Group share of cash held by joint operations	**429**	624

* *Included in bank balances are balances relating to Aveng Zimbabwe (Private) Limited of R1 million (2019: R8 million) which is regarded as having limited transferability.*

Finance earnings

Cash at banks earn finance earnings at floating rates based on daily bank deposit rates.

Offsetting of bank overdrafts

The Group is offsetting notional bank overdrafts. Refer to *note 46: Risk management* for further disclosure on the Group's exposure to credit risk and *note 48: Offsetting financial assets and financial liabilities* for further disclosure on the impact of the Group's netting arrangements.

Expected credit losses

The expected credit loss provision for cash and bank balances is immaterial.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

20. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As disclosed in *note 6: Discontinued operations*, the outcome of the strategic review led to the Board's decision to exclude the following reportable segments from the Group's long-term strategy:

- *Construction and Engineering: South Africa and rest of Africa*; and
- *Manufacturing and Processing*.

These non-core reporting segments are presented as separately identifiable disposal groups and are disclosed as discontinued operations in the Group's statement of comprehensive earnings (refer to *note 7: Segmental report* and *note 6: Discontinued Operations*).

Initial recognition

At initial recognition, the disposals were expected to occur within the succeeding 12 months; the assets and liabilities were classified as Held for Sale. The assets and liabilities of the disposal groups were allocated to their cash-generating units (CGUs) in the prior year and were subject to an impairment assessment prior to classification as Held for Sale. The recoverable amounts of all CGUs were assessed as the fair value less cost of disposal (refer to note 8: *Impairments*). On initial recognition, the proceeds from the sale were expected to equal the net carrying amounts. The carrying amounts of some of the assets in relation to the *Construction and Engineering: South Africa and the rest of Africa* and *Manufacturing and Processing* disposal group, exceeded their fair value less cost of disposal after being classified as Held for Sale. An adjustment was recognised to present these assets at their fair value less costs of disposal in the prior year.

Sales finalised in the current year

Construction and Engineering: South Africa and the rest of Africa

Aveng Construction Building and Civil Engineering

In August 2019, the Group, acting through its former wholly owned subsidiary, Grinaker-LTA Proprietary Limited (GLTA), entered into a binding term sheet with Laula Consortium Proprietary Limited for the sale of the Aveng Construction Building and Civil Engineering business. The sale had an effective date of 1 November 2019 for a purchase price of R70 million, which will be received via an initial payment of R20 million settled in six equal monthly instalments, and a further R50 million which will be settled no later than the second anniversary of the effective date.

Aveng Construction Mechanical and Electrical

In October 2019, the disposal of the Aveng Construction Mechanical and Electrical business to Laula Consortium Proprietary Limited was announced. The sale was concluded in December 2019 with Aveng selling its 100% interest in Aveng Grinaker-LTA Proprietary Limited for a purchase price of R72 million which was received by the Group in full.

Aveng Construction Rand Roads

Rand Roads was disposed of to Ultra Asphalt Proprietary Limited for R37.5 million. The sale was concluded with an effective date of 2 December 2019.

Aveng Construction Ground Engineering (GEL)

The disposal of GEL was announced on 12 July 2019. This transaction did not proceed in its current form, as a result of the purchaser subsequently being unable to secure the requisite funding of R7.5 million.

In June 2020, Aveng has entered into a binding sale agreement with Ground Engineering Proprietary Limited for the sale of GEL as a going concern for R5 million with an effective date of 1 July 2020. Refer to *note 49: Events after the reporting period.*

Manufacturing and Processing Segment

Aveng Dynamic Fluid Control (DFC)

In July 2019, the disposal of DFC to Copaflo Proprietary Limited was announced. The sale was concluded in September 2019, whereby the CGU was sold for R125 million, subsequently reduced to R114 million and is subject to working capital adjustments.

Sales not finalised in the current year

Despite announcing the sale of Aveng Infraset in the prior year, the Group has determined that unforeseen challenges (including the negative effects of COVID-19 on the sales process) outside the control of management have prevented the execution of this sale and the sales on the remaining assets. Due to the dynamic nature of these businesses and the complex environment in which they operate, several of the assets have not been sold by year end.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

20. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Sales not finalised in the current year continued

In the preceding 12 months there have been numerous expressions of interest, and a number of non-binding offers for cash generating units (CGUs) within the disposal groups, however the Group did not receive reasonable offers to purchase all of the remaining CGUs. The delay in the finalisation of sales were due to events and circumstances beyond the control of management; including but not limited to the significant impact of COVID-19 on the ability to obtain the best value for the remaining assets, and the corresponding uncertainty within the market brought about during lockdown.

Management continues to remain committed to the disposal plan previously announced to dispose of the remaining non-core disposal groups and continues to actively locate appropriate buyers. The overall plan to dispose of the assets remains but the planned manner in which the assets will be disposed of has been revised during the year. The appropriate level of management remains committed to a plan to sell the CGUs and expect that the sales will be concluded within the next 12 months.

At year end, these assets remain available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets. Management continues to actively market the assets for sale at prices that are reasonable in relation to their current fair value which leads management to conclude that it is highly probable that the sale of the remaining assets within non-core operating segments will be concluded in the next twelve months.

As part of the extension to the period to complete the sales, the continued support by the Board and plan by management to locate appropriate buyers indicates that it is highly unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Sales finalised after the year end

On 7 August 2019, Aveng announced that it had entered into a fully funded sale of business agreement with Videx Wire Products (Pty) Ltd for the sale of the Aveng Duraset Alrode business as a going concern. The Proposed Transaction was subject to a number of consents and conditions precedent, as outlined in the SENS announcement. All consents and conditions precedent were fulfilled except the approval of the relevant competition authorities. In November 2019, the South African Competition Commission formally prohibited the Proposed Transaction. As a result, the agreement between Aveng and Videx was terminated.

Subsequent to year end, management reached an agreement to dispose of the Aveng Duraset Alrode business as a going concern subject to certain conditions precedent. The proposed transaction is limited to the sale of the Duraset Alrode operation and product portfolio which includes all assets and liabilities of Duraset Alrode

Subsequent to year end, management reached an agreement to dispose of the Aveng Duraset Westonaria business as a going concern subject to certain conditions precedent. The proposed transaction is limited to the sale of the Aveng Duraset Westonaria operation and product portfolio which includes all assets and liabilities of Aveng Duraset Westonaria

Refer to *note 49: Events after reporting period for additional information*.

Assets transferred into assets Held for Sale

Construction and Engineering: South Africa and the rest of Africa – Equity-accounted investments

Equity accounted investments (REHM Grinaker Construction Co Limited and REHM Grinaker Properties Co Limited) accounted for under the *Construction and Engineering: South Africa and rest of Africa* reportable segment were classified as Held for Sale during the current year. The carrying amounts of some of these investments exceeded their fair values less cost of disposal prior to being classified as Held for Sale leading to the recognition of impairment losses (refer to note 8: *Impairments* for further details regarding the disclosures in terms of IFRS 13 Fair Value Measurement).

Assets transferred out of assets Held for Sale

Construction and Engineering: South Africa and the rest of Africa – Infrastructure Investments

The assets classified as Held for Sale amounting to R117 million, no longer met the classification requirements to be Held for Sale as the Group did not receive reasonable offers to purchase the assets in the current year. Even though the investment properties do not meet the *IFRS 5* subsequent measurement criteria at 30 June 2020, management remains committed to dispose of these assets per the strategy announced in the prior years. The assets were transferred from non-current assets Held for Sale back to Infrastructure Investments. Refer to *note 13: Infrastructure investments.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

20. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

Assets transferred out of assets Held for Sale continued

Construction and Engineering: South Africa and the rest of Africa – Equity-accounted Investments

The investment in *Oakleaf Holdings 86 Proprietary Limited* no longer met the classification requirements of Held for Sale and was transferred from Assets Held for Sale. Even though the investment does not meet the *IFRS 5* subsequent measurement criteria at 30 June 2020, management remains committed to dispose of this investment per the strategy announced in the prior years. The asset was transferred from non-current assets Held for Sale back to Equity-accounted investments. Refer to *note 12: Equity-accounted investments.*

Subsequent measurement

While there have been a number of unforeseen challenges executing on these sales transactions in the year, the extension of the classification of the remaining assets within non-core operating segments as Held for Sale is supported by management's continued commitment to the disposal plan previously announced. The overall plan to dispose of the assets remains but the planned manner in which the assets will be disposed of has been revised during the year. Management expects that the sales will be concluded within the next 12 months.

Subsequent to initial classification as Held for Sale, the Group remeasured the assets at their fair value less costs of disposal. In the case where the carrying amount exceeded the fair value less costs of disposal, an adjustment was recognised to present these assets at the lower value. In the case where a binding offer had been received by 30 June 2020 for the sale of an asset, the fair value less costs of disposal is determined based on the value of the offer received, less costs required to dispose of the assets.

In the case where the fair value less costs of disposal exceed the carrying amount, an adjustment could be recognised. The adjustment is subject to a limit on the amount of any gain that can be recognised as a result of an increase in fair value less costs to sell before disposal. The maximum increase (and therefore gain) that can be recognised is the cumulative amount of impairment losses recognised in accordance with IFRS 5 and previously in accordance with *IAS 36.* In this regard, an adjustment of R13 million was recognised on Aveng Construction Ground Engineering at 30 June 2020.

	2020 Rm	2019 Rm
Assets Held for Sale	**2 309**	3 843
Liabilities Held for Sale	**(2 051)**	(3 436)
	258	407
Movement during the year		
Opening Balance	**407**	693
Adoption of *IFRS 16* accounting standard:		
Non-current assets*	**926**	-
Non-current liabilities**	**(926)**	-
Movements in:		
Non-current assets	**(85)**	(20)
Current assets	**(1 276)**	(416)
Non-current Liabilities	**265**	19
Current Liabilities	**965**	558
Sale of Assets Held for Sale	**(111)**	(224)
Adjustment to fair value less cost of disposal***	**(13)**	(51)
Transferred from / to:		
Transfer to assets classified as Held for Sale	**13**	-
Transfer from assets classified as Held for Sale	**93**	(152)
Net assets Held for Sale	**258**	407

* *An amount of R926 million was included in the Held for Sale property, plant & equipment at 1 July 2019 as part of the adoption of* IFRS 16.

** *An amount of R926 million was included in the Held for Sale borrowings and other liabilities at 1 July 2019 as part of the adoption of* IFRS 16.

*** *No impact on other comprehensive earnings in the current year.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

20. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

As at 30 June 2020, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs to dispose and comprised the following:

30 June 2020	Construction and Engineering: South Africa and the rest of Africa-Disposal group Rm	Manufacturing and and Processing-Disposal group Rm	Total Rm
ASSETS			
Non-current assets			
Intangible assets	-	8	8
Property, plant and equipment	17	956	973
Equity-accounted investments	13	-	13
	30	964	994
Current assets			
Inventories	-	839	839
Derivative instruments	-	9	9
Amounts due from contract customers	2	6	8
Trade and other receivables	1	458	459
	3	1 312	1 315
TOTAL ASSETS	33	2 276	2 309
LIABILITIES			
Non-current liabilities			
Borrowings and other liabilities	-	694	694
Employee-related payables	1	7	8
	1	701	702
Current liabilities			
Amounts due to contract customers	-	7	7
Borrowings and other liabilities	-	131	131
Employee-related payables	2	52	54
Trade and other payables	-	461	461
Provision for unallocated fair value adjustments	13	683	696
	15	1 334	1 349
TOTAL LIABILITIES	16	2 035	2 051
Net assets Held for Sale	17	241	258

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

20. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

As at 30 June 2019, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs to dispose and comprised the following:

30 June 2019	Construction and Engineering: South Africa and the rest of Africa-Disposal group Rm	Manufacturing and Processing-Disposal group Rm	Total Rm
ASSETS			
Non-current assets			
Intangible assets	-	22	22
Property, plant and equipment	265	69	334
Equity-accounted investments*	32	-	32
Infrastructure investments	119	-	119
	416	91	507
Current assets			
Inventories	12	1 646	1 658
Amounts due from contract customers	397	4	401
Trade and other receivables	96	1 181	1 277
	505	2 831	3 336
TOTAL ASSETS	921	2 922	3 843
LIABILITIES			
Non-current liabilities			
Borrowings and other liabilities	-	1	1
Employee-related payables	34	7	41
	34	8	42
Current liabilities			
Amounts due to contract customers	218	6	224
Borrowings and other liabilities	-	1	1
Employee-related payables	112	77	189
Trade and other payables	700	1 494	2 194
Financial Liabilities	-	1	1
Provision for unallocated fair value adjustments	-	785	785
	1 030	2 364	3 394
TOTAL LIABILITIES	1 064	2 372	3 436
Net assets Held for Sale	(143)	550	407

* *The investment in Oakleaf Investment Holdings 86 Proprietary Limited classified as Held for Sale is disclosed and presented under the Construction and Engineering: South Africa and the rest of Africa reporting segment disposal group as it forms part of Aveng Capital Partners investment Portfolio.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

21. STATED CAPITAL

	2020 Rm	2019 Rm
Authorised		
180 882 034 263 ordinary shares (2019: 180 882 034 263 ordinary shares)	**9 044**	9 044
Issued		
Stated Capital (19 394 498 220 ordinary shares) (2019: 19 394 498 220 ordinary shares)	**3 874**	3 874
Stated capital	**3 874**	3 874
Treasury shares		
Shares held by the Aveng Limited Share Purchase Trust		
- Number of shares	**6 018 386**	6 018 386
- Market value (Rm)	*****	*
Shares held by the Aveng Management Company Proprietary Limited		
- Number of shares	**788 684**	788 684
- Market value (Rm)	*****	*
Shares held in terms of equity-settled share-based payment plan		
- Number of shares	**18 046 763**	18 046 763
- Market value (Rm)	*****	*

Reconciliation of number of shares issued	Number of shares	Number of shares
Opening balance	**19 394 498 220**	416 670 931
Share Issue - Rights to qualifying shareholders (4 July 2018)	**-**	4 931 854 395
Share Issue - Early redemption of convertible bond (25 September 2018)	**-**	14 045 972 894
Closing balance	**19 394 498 220**	19 394 498 220
Less: treasury shares	**(24 853 833)**	(24 853 833)
Number of shares in issue less treasury shares	**19 369 644 387**	19 369 644 387

** Amounts less than R1 million*

Rights offer to qualifying shareholders

In the prior year the Group undertook a renounceable rights offer to raise up to R500 million to qualifying shareholders. The rights offer consisted of 5 000 000 000 rights offer shares in the ratio of 1 199.98772 rights offer shares for every 100 Aveng ordinary shares held at the close of trade on 15 June 2018 and at a price of R0,10 per rights offer share. The total number of rights offer shares subscribed for and excess allocations applied for was 4 931 854 395 rights offer shares, representing 98,6% of the rights offer. An aggregate amount of R493 million was raised.

The rights offer shares subscribed for were issued on 2 July 2018, with excess allocation shares issued on 4 July 2018.

Early redemption of the convertible bond

In terms of the strategic review, the debt levels within the Group were considered to be unsustainable, in particular the convertible bonds which created significant constraints on the Group's liquidity position. The Group redeemed the existing convertible bond on 25 September 2018 through the execution of the following:

- On 4 July 2018, the bondholders agreed to the capitalisation of interest on the bonds and voted to accept the terms of the early bond redemption on 30 August 2018;
- On 10 September 2018, the Group's shareholders passed the required resolutions giving effect to the specific issue of shares at R0,10 per share, equivalent to the rights offer price, to settle the convertible bonds;
- On 17 September 2018, a specific buyback of R690 million of the existing convertible bonds at 70% of the principal amount (a 30% discount) was completed; and
- The remaining R1,4 billion bonds were settled through the specific issue of ordinary shares at R0,10 per share on 25 September 2018.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

21. STATED CAPITAL continued

	Number of shares	Holding
The top ten shareholders of the Group as at 30 June 2020 are entities (or clients of these entities in aggregate) listed below:		
Highbridge Capital Management LLC (US)	**3 698 756 984**	**19,1%**
Coronation Asset Management (Pty) Ltd (ZA)	**2 663 691 702**	**13,7%**
ATM Holding GmbH (DE)	**1 359 584 404**	**7,0%**
Allan Gray Pty Ltd (ZA)	**969 530 966**	**5,0%**
SBG Securities (Pty) Limited (ZA)**	**894 428 635**	**4,6%**
J.P. Morgan Securities Plc (UK)	**750 005 542**	**3,9%**
Ninety One Plc (formerly Investec Asset Management) (ZA)	**634 076 028**	**3,3%**
Personal Trust International (ZA)	**629 530 200**	**3,3%**
Investec Securities (Pty) Limited (ZA)	**612 471 519**	**3,2%**
Envisionit Stock Lending Solutions (ZA)**	**582 586 898**	**3,0%**
	12 794 662 878	**66,1%**
The top ten shareholders of the Group as at 30 June 2019 are entities (or clients of these entities in aggregate) listed below:		
Highbridge Capital Management LLC (US)	3 835 659 712	19,8%
Coronation Asset Management (Pty) Ltd (ZA)	3 110 400 203	16,0%
Allan Gray Pty Ltd (ZA)	2 252 525 495	11,6%
ATM Holding GmbH (DE)	1 359 584 403	7,0%
Deutsche Securities (Pty) Limited (ZA)*	895 240 321	4,6%
J.P. Morgan Securities Plc (UK)	800 005 461	4,1%
Investec Securities (Pty) Limited (ZA)	651 668 556	3,4%
Investec Asset Management	638 789 039	3,3%
Personal Trust International (ZA)	629 530 200	3,3%
BNP Paribas Arbitrage S.N.C. (FR)*	502 681 498	2,6%
	14 676 084 888	75,7%

* *Shareholder no longer in the top 10.*
** *Shareholder was not in the top 10 in prior year.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

22. BORROWINGS AND OTHER LIABILITIES

	Notes	2020 Rm	2019 Rm
Borrowings and other liabilities comprise:			
Interest-bearing borrowings held at amortised cost	22.1	**1 883**	2 145
Lease Liabilities	22.2	**497**	-
Total borrowings and other liabilities		**2 380**	2 145

22.1 Borrowings held at amortised cost

	2020 Rm	2019 Rm
Borrowings held at amortised cost comprises:		
Credit and term facilities	**1 708**	1 870
Asset-backed financing arrangements	**175**	275
Total borrowings held at amortised cost	**1 883**	2 145
Payment profile		
- within one year	**893**	695
- between two and five years	**990**	1 450
	1 883	2 145
Interest rate structure		
Fixed and variable (interest rates)		
Fixed - long-term	**422**	414
Fixed - short-term	**72**	129
Variable - long-term	**568**	1 036
Variable - short-term	**821**	566
	1 883	2 145

Notes to the consolidated annual financial statements continued

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22. BORROWINGS AND OTHER LIABILITIES continued

22.1 Borrowings held at amortised cost continued

Description	Terms	Rate of interest	2020 Rm	2019 Rm
Credit and term facilities				
Revolving credit facility*	Repayable September 2021	1M JIBAR + 4.89%	**558**	550
Revolving credit facility*	Repayable September 2021	Fixed rate of 13.986%	**316**	281
Term facility*	Repayable June 2021	1M JIBAR + 5.02%	**818**	858
Term loan facility denominated in ZAR*	Repayable monthly ending April 2021	Fixed interest rate of 10,58%	**16**	32
Working Capital Credit Facility	Repayable monthly on a revolving facility basis	2.9% plus 0.5% margin	**-**	49
Super Senior Liquidity Facility #2*	Settled October 2019	1M JIBAR + 4.21%	**-**	100
Asset-backed financing arrangements				
Facility of AUD6 million	Monthly instalments ending October 2024	Fixed interest rate of 2.99% to 7.60%	**24**	59
Facility denominated in ZAR	Monthly instalments ending in February 2022	Fixed interest rate of 8%	**2**	4
Facilities denominated in ZAR	Monthly instalments ending in August 2022	South African prime	**10**	14
Facility of AUD6 million	Monthly instalments ending July 2022	Fixed interest rate of 4.6%	**73**	-
Hire purchase facility denominated in USD	Monthly instalments ending August 2021	Fixed interest rate of 6.70%	**34**	86
Hire purchase agreement denominated in ZAR	Monthly instalments ending April 2021	Fixed interest rate of 12.27%	**4**	10
Facility of AUD12 million	Monthly instalments ending November 2020	Fixed interest rate of 4.60%	**25**	70
Hire purchase agreement denominated in ZAR	Monthly instalments ending August 2020	South African prime plus 3.00%	**3**	18
Hire purchase agreement denominated in ZAR	Settled in November 2019	South African prime less 1.70%	**-**	9
Hire purchase agreement denominated in ZAR	Settled in September 2019	Fixed interest rate of 10%	**-**	5
Total interest-bearing borrowings			**1 883**	2 145

* *These loans are in terms of the Second Amended and Restated Common Terms of Agreement (CTA) and the signed amendment letter on 27 August 2019 with the South African Banking Group. Subsequent to year end, a debt restructuring and recapitalisation of Aveng Limited was required in order to increase the likelihood of a sustainable outcome for all stakeholders. The restructuring and deferral of the payments of the above facilities was agreed upon on the basis that the Group, SA lenders and the largest shareholder sign an irrevocable credit approved term sheet. Refer to* note 5: Going Concern *and* note 49: Events after the reporting period *for the details relating to the restructuring and details of the restructured facilities.*

Unutilised borrowing facilities

At 30 June 2020, the Group had available R483 million (includes bank overdraft facilities of R181 million) (2019: R302 million) of unutilised borrowing facilities.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

22. BORROWINGS AND OTHER LIABILITIES continued

22.1 Borrowings held at amortised cost continued

Asset-backed financing arrangements

Construction and Engineering: Australasia and Asia

The operating segment entered into asset-backed finance arrangements to fund the acquisition of various items of plant and machinery.

The total asset-backed finance facilities amounted to AUD 10 million (2019: AUD 13 million). The amount outstanding on these facilities as at year end was AUD 10 million (2019: AUD13 million) and is equivalent to R122 million (2019: R129 million). These asset-backed arrangements were secured by plant and equipment with a net carrying amount of R123 million (2019: R69 million).

Mining

The operating segment entered into various asset-backed 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 August 2022. The total amount outstanding on these facilities amounted to R53 million (2019: R178 million). Equipment with a net carrying amount of R224 million (2019: R321 million) has been pledged as security for the facility.

The following is summarised financial information of the Group's asset-backed financing arrangements:

	2020 Rm	**2019 Rm**
Asset-backed financing arrangements are payable as follows:		
Minimum payments due		
- within one year	**93**	203
- in two to five years	**94**	125
Less: future finance charges	**(12)**	(21)
Present value of minimum payments	**175**	307

22.2 Lease liabilities

The table below represents only the lease liabilities not Held for Sale, recognised for the first time under *IFRS 16 Leases*. Refer to *note 20: Assets and Liabilities classified as Held for Sale* for disclosure of the disposal groups' lease liabilities classified as Held for Sale.

Maturity analysis	**2020 Rm**	**2019 Rm**
Lease liabilities are payable as follows:		
Minimum lease payments due		
- within one year	**208**	-
- in two to five years	**287**	-
- more than five years	**106**	-
Less: future finance charges	**(104)**	-
Present value of minimum lease payments	**497**	-
Non-current lease liabilities	**323**	-
Current lease liabilities	**174**	-

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

23. PAYABLES OTHER THAN CONTRACT-RELATED

	Opening balance Rm	Utilised Rm	Unwinding of discount Rm	Total Rm
Reconciliation of payables other than contract-related				
2020				
Payables other than contract-related	**136**	**-**	**12**	**148**
2019				
Payables other than contract-related	146	(21)	11	136

	2020 Rm	2019 Rm
Current liabilities	**44**	21
Non-current liabilities	**104**	115
	148	136

South African government settlement

Following an extensive period of negotiation in prior years, the South African government and the participating construction companies concluded a settlement agreement which addressed outstanding legacy issues and a commitment to a plan which ensures the repositioning of the South African construction sector. All parties to the settlement agreement acknowledged the need to foster a better relationship between the government and the construction industry going forward.

24. TRADE AND OTHER PAYABLES

	2020 Rm	2019 Rm
Trade payables	**786**	1 032
Subcontractors	**181**	117
Accrued expenses	**1 591**	1 363
Other provisions	**206**	171
	2 764	2 683

The balances included in the table above relate only to continuing operations. Refer to *note 20: Assets and Liabilities classified as Held for Sale* for disclosure of the disposal groups' trade and other payables classified as Held for Sale.

Trade and other payables comprise amounts owing to suppliers for goods and services supplied in the normal course of business.

Promissory notes are issued by the Group to manage working capital levels and do not represent funding facilities and are accounted for as trade payables and included in Assets and liabilities Held for Sale (Refer to *note 20*: *Assets and Liabilities Held for Sale*). These Promissory notes bear interest between a range of 6,54% and 9,34% per annum (2019: 9.72% and 12.52% per annum). Terms vary in accordance with contracts of supply and service but are generally settled on 60 to 61 day terms.

The carrying amounts of trade and other payables approximate their fair values due to its short-term maturity.

Notes to the consolidated annual financial statements continued

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25. EMPLOYEE-RELATED PAYABLES

IFRS 2 Share-based payment obligation

Share-based payment obligations comprise cash-settled options for executives and senior employees. The cost of cash-settled transactions is measured initially at fair value at the grant date using an adjusted binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in earnings. Refer to *note 27: Share-based payments.*

Employee entitlements

Employee entitlements are obligations raised for the various employee incentive plans in place throughout the Group. Included in employee entitlements are short and medium-term incentive plan obligations, along with statutorily determined retrenchment commitments.

Leave pay benefits

Leave pay benefits are amounts due to employees for accumulated leave balances, the timing of which is uncertain at year-end. The discounting element of these obligations was realised through profit and loss in the current year.

The total employee related payables are disclosed as follows:

	2020 Rm	2019 Rm
Non-current	**330**	245
Current	**243**	283
Total employee-related payables	**573**	528

Reconciliation of employee-related payables

	Opening balance Rm	Recognised/ (reversed) in earnings or loss Rm	Utilised Rm	Currency adjustment Rm	Classified as Held for Sale - transferred in Rm	Total Rm
2020						
IFRS 2 - Share-based payment obligation	**2**	**-**	**(1)**	**-**	**-**	**1**
Employee entitlements	**262**	**(22)**	**(45)**	**6**	**11**	**212**
Leave pay benefits	**264**	**9**	**40**	**47**	**-**	**360**
	528	**(13)**	**(6)**	**53**	**11**	**573**
2019						
IFRS 2 - Share-based payment obligation	3	-	(1)	-	-	2
Employee entitlements	241	75	(57)	3	-	262
Leave pay benefits	257	29	(16)	(6)	-	264
	501	104	(74)	(3)	-	528

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

26. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE

The Group has a forfeitable share plan in place under which certain senior executives have been granted shares in the Company. A description of the plan as well as the terms and conditions relating to awards made are disclosed in the remuneration report, available on the Group's website.

Details of awards made are disclosed in *note 45: Directors emoluments and interests*.

	2020 Rm	2019 Rm
Opening balance	**40**	39
Equity-settled share-based payment expense	**-**	1
	40	40

27. SHARE-BASED PAYMENTS

27.1 Cash-settled share-based payment plan

Conditional share plan

Due to Aveng Limited being in a closed, cautionary or prohibited period since December 2015, the Aveng remuneration and nomination committee was unable to make normal annual awards under the newly approved LTIP. In light of recognising the importance of retaining critical leadership talent to the future success of Aveng, and ensuring that employees remain incentivised to achieve target performance, Aveng took advice from its advisers and sponsor and considered industry practice to determine an appropriate alternative to the LTIP awards.

On this basis, the committee decided to make cash-settled conditional share awards to certain selected executive and senior employees. The design principles of the cash-settled conditional share plan mirror those of the approved LTIP scheme, with the only exception that the plan is settled in cash. Vesting of the performance awards are subject to the satisfaction of a performance condition, which is the same as the approved LTIP, measured over the performance period of three years.

On resignation, the employee will forfeit all unvested awards. On death, retrenchment, sale of employer company, disability or retirement, only a portion of the awards will vest, calculated based on the number of months worked over the total vesting period, subject to the satisfaction of performance conditions if any are applicable at that stage. The plan is cash-settled.

The outstanding awards at 30 June 2020 were as follows:

Grant date	Vesting period	Number of awards 2020*	Number of awards 2019
15 August 2016	15 August 2017 - 15 August 2019	**-**	81 231
19 September 2016	18 September 2019	**-**	5 787 667
		-	5 868 898

* *The performance condition relating to the unvested awards was not met. As per the rules of the scheme, these awards were automatically forfeited. The retention and bonus awards vested.*

Notes to the consolidated annual financial statements continued

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27 SHARE-BASED PAYMENTS continued

27.2 Equity-settled share-based payment plan

Forfeitable Share Plan

In terms of the Group Forfeitable Share Plan (FSP), senior executives of the Group, including executive directors, are granted shares in the Group for no consideration. The provision of shares will initially serve as a retention mechanism but can in future be used as an incentive mechanism with retention awards only made on an ad-hoc basis as and when required for the performance period of three years. Vesting of the awards will be subject to the satisfaction of performance conditions measured over the performance period of three years. These shares participate in dividends and shareholder rights from grant date. The shares are subject to forfeit if the employee leaves the employment of the Group prior to the third anniversary of the award date.

On resignation, the employee will forfeit all unvested shares. On death, retrenchment, sale of employer company, disability or retirement, only a portion of the shares will vest, calculated based on the number of months worked over the total vesting period, subject to the satisfaction of performance conditions, if any are applicable at that stage. The plan is settled in shares and therefore is equity-settled. There are no portions of the plan that have been cash-settled.

This scheme was replaced by the Aveng Long Term Incentive Plan (LTIP) and approved at the AGM in October 2015.

The movements during the year were as follows:

	2020 Number of shares	2019 Number of shares
Opening balance	-	2 265 200
Shares forfeited*	-	(2 265 200)
	-	-

* *In light of the performance condition not being met, shares reported hereunder were automatically forfeited in terms of the scheme rules and the endorsement of the remuneration and nomination committee.*

28. POST-EMPLOYMENT BENEFITS

	2020 Number of Employees	2019 Number of Employees
Defined contribution plan		
Aveng Group and industry retirement plans	**6 195**	8 790
McConnell Dowell Corporation Limited plan	**1 788**	2 089
Number of covered employees	**7 983**	10 879
Number of employees not covered	**1 999**	665
Total number of employees	**9 982**	11 544
Cover Ratio	**80,0%**	94,2%

	2020 Rm	2019 Rm
The Group's retirement expense (Rm)	**229**	315

Defined benefit plan

The fund is a closed defined benefit plan, in terms of which an Annuity Purchase Agreement was entered into in 2001, whereby the pensioner liabilities were fully outsourced to and guaranteed by Momentum Group Limited (Momentum). In the event that Momentum is no longer able to perform in terms of the Annuity Purchase Agreement, the obligation to fund the pensioner liabilities may revert to the Group.

The member surplus apportionment account is defined benefit in nature, fully funded and accordingly has no foreseen future funding obligation by the Group. The Group is no longer making contributions to the fund and has no recourse to any of the assets of the fund.

The Group has assessed the likelihood of Momentum being unable to perform in terms of the Annuity Purchase Agreement to be remote.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

29. REVENUE

The Group's revenue is derived from contracts with customers. Revenue can be classified into the following categories: construction contracts, sale of goods and transport services.

	CONTINUNG OPERATIONS			DISCONTINUED OPERATIONS		
	Construction and Engineering: Australasia and Asia Rm	Mining Rm	Other and Eliminations Rm	Construction and Engineering: South Africa and the rest of Africa Rm	Manufacturing and Processing Rm	Total Rm
Year ended 30 June 2020						
Construction contract revenue	**10 297**	**3 943**	**(16)**	**1 862**	**-**	**16 086**
Sale of goods	**-**	**1**	**(52)**	**-**	**4 758**	**4 707**
Other revenue	**-**	**11**	**1**	**3**	**16**	**31**
Transport revenue	**-**	**-**	**-**	**-**	**54**	**54**
	10 297	**3 955**	**(67)**	**1 865**	**4 828**	**20 878**

	CONTINUING OPERATIONS			DISCONTINUED OPERATIONS		
	Construction and Engineering: Australasia and Asia Rm	Mining Rm	Other and Eliminations Rm	Construction and Engineering: South Africa and the rest of Africa Rm	Manufacturing and Processing Rm	Total Rm
Year ended 30 June 2019						
Construction contract revenue	9 527	4 120	(71)	4 614	153	18 343
Sale of goods	-	11	(52)	-	7 282	7 241
Other revenue	-	12	1	3	-	16
Transport revenue	-	-	-	-	76	76
	9 527	4 143	(122)	4 617	7 511	25 676

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

30. COST OF SALES

	2020 Rm	2019 Rm
Operating lease charges - premises*	**-**	143
Short-term and low value lease charges*	**172**	-
Earnings from contract-related property, plant and equipment	**(28)**	(36)
Depreciation of property, plant and equipment	**606**	736
Depreciation of right-of-use property, plant and equipment**	**218**	-
Loss on derecognition of components included in property, plant and equipment	**69**	124
Employee cost	**3 903**	5 020
Employee benefits	**91**	136
Materials	**5 153**	7 525
Sub-contractors	**6 113**	6 475
Other	**3 610**	4 505
	19 907	24 628

* In terms of *paragraph 6* of *IFRS 16 Leases*, a lessee is required to disclose the expense relating to its lease commitments for short-term leases and low value leases separately. The Group has adopted *IFRS 16 Leases* using the modified retrospective approach, with the effect of initially applying the standard recognised at the transition date (ie 1 July 2019). Accordingly, the information presented for 30 June 2019 has not been restated – ie it is presented, as previously reported under *IAS 17 Leases (IAS 17), IFRIC 4 Determining whether an Arrangement contains a Lease (IFRIC 4)* and related interpretations.

The Group recognised rent expense from short-term leases of R157 million, leases of low-value assets of R15 million and no variable lease payments for the year ended 30 June 2020.

** As the Group has adopted *IFRS 16 Leases* using the modified retrospective approach, as discussed above, the prior year depreciation of right-of-use property, plant and equipment does not represent a restated *IFRS 16* depreciation charge on right-of-use assets.

31. OTHER EARNINGS

	2020 Rm	2019 Rm
Dividends received	**25**	3
Discount received*	**62**	93
Foreign exchange losses**	**(59)**	(32)
Rent received	**34**	29
Other income	**101**	17
	163	110

* *Includes rent concessions of R14 million, granted by a lessor in the current year.*

** *Includes gains on forward exchange contracts.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

32. OPERATING EXPENSES

	2020 Rm	2019 Rm
Employee costs	**836**	1 145
Computer costs	**164**	159
Consulting fees	**115**	214
Operating lease charges *	**-**	83
Short-term and low value lease charges*	**55**	-
Rationalisation and restructuring	**14**	31
Depreciation of property, plant and equipment	**6**	6
Depreciation of right-of-use property, plant and equipment**	**55**	-
Amortisation of intangible assets	**9**	8
Share-based payment expense	**-**	1
Employee benefits	**12**	24
Auditors remuneration	**57**	70
Other	**324**	506
	1 647	2 247

* In terms of *paragraph 6* of *IFRS 16 Leases*, a lessee is required to disclose the expense relating to its lease commitments for short-term leases and low value leases separately. The Group has adopted *IFRS 16 Leases* using the modified retrospective approach, with the effect of initially applying the standard recognised at the transition date (ie 1 July 2019). Accordingly, the information presented for 30 June 2019 has not been restated – ie it is presented, as previously reported under *IAS 17 Leases (IAS 17), IFRIC 4 Determining whether an Arrangement contains a Lease (IFRIC 4)* and related interpretations.

The Group recognised rent expense from short-term leases of R53 million, leases of low-value assets of R2 million and no variable lease payments for the year ended 30 June 2020.

** As the Group has adopted *IFRS 16 Leases* using the modified retrospective approach, as discussed above, the prior year depreciation of right-of-use property, plant and equipment does not represent a restated *IFRS 16* depreciation charge on right-of-use assets.

Notes to the consolidated annual financial statements continued

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33. DISPOSAL OF SUBSIDIARIES

***Manufacturing and Processing* disposal group**

On 30 September 2019, the Group concluded the sale of the following subsidiaries for R44 million cash:

- Vent-O-Mat Australia Proprietary Limited (Australia)
- Aveng Indústria E Comércio De Válvulas Do Brasil Limitada (Brazil)
- RF Valves Osakeyhtiö (Finland)
- RF Valves, Incorporated (USA)

All of the subsidiaries formed part of the *Manufacturing and Processing* disposal group. The subsidiaries were not considered an operating segment nor a separate major line of business or geographical area.

30 June 2020	Vent-O-Mat Australia Proprietary Limited Rm	Aveng Indústria E Comércio De Válvulas Do Brasil Limitada Rm	RF Valves Osakeyhtiö Rm	RF Valves Incorporated Rm
Net cash impact of sale				
Total Assets (excluding cash and bank balances)	**25**	**3**	**20**	**97**
Property, plant and equipment, net of accumulated depreciation and impairment losses	2	*	1	20
Inventories	17	3	13	44
Trade and other receivables, net of provisions	6	-	6	33
Cash and bank balances	-	-	-	-
Total liabilities	**(24)**	**(4)**	**(13)**	**(59)**
Trade and other payables	(13)	(4)	(4)	(12)
Lease liabilities	(2)	*	-	(15)
Provision for unallocated fair value adjustment	(9)	-	(9)	(32)
Net assets sold	**1**	**(1)**	**7**	**38**
Gain / (Loss) on disposal of subsidiary	7	1	1	(10)
Net proceeds received in cash	**8**	**-**	**8**	**28**
Total proceeds received in cash	8	-	8	28
Less: Transaction costs paid**	*	*	*	*

* *Amounts less than R1 million*

** *Transaction costs incurred relating to this transaction was expensed.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

33. DISPOSAL OF SUBSIDIARIES continued

***Construction and Engineering: South Africa and rest of Africa* disposal group**

On 1 December 2019, the Group concluded the sale of the following subsidiaries for R72 million cash:

- Grinaker-LTA Proprietary Limited
- Grinaker-LTA (Botswana) Proprietary Limited
- Aveng Namibia Proprietary Limited

Grinaker-LTA Proprietary Limited owned 100% of Grinaker-LTA (Botswana) Proprietary Limited and Aveng Namibia Proprietary Limited. These were sold as part of the sale. All these subsidiaries formed part of *the Construction and Engineering: South Africa and the rest of Africa* disposal group. The subsidiaries were not considered an operating segment nor a major line of business or geographical area.

30 June 2020	Grinaker-LTA Proprietary Limited Rm	Grinaker-LTA (Botswana) Proprietary Limited Rm	Aveng Namibia Proprietary Limited Rm
Net cash impact of sale			
Total Assets (excluding cash and bank balances)	**154**	**23**	**9**
Property, plant and equipment, net of accumulated depreciation and impairment losses	12	-	3
Inventories	1	-	-
Taxation Receivable	-	4	-
Amounts due from contract customers	138	19	6
Trade and other receivables, net of provisions	3	-	*
Cash and bank balances	-	-	-
Total liabilities	**(106)**	**(19)**	**-**
Amounts due to contract customers	(13)	(12)	-
Trade and other payables	(73)	(6)	1
Employee-related payables	(20)	(1)	(1)
Net assets sold	**48**	**4**	**9**
Gain on disposal of subsidiary	9	-	2
Net proceeds received in cash	**57**	**4**	**11**
Total proceeds received in cash	57	4	11
Less: Transaction costs paid**	*	*	*

* *Amounts less than R1 million*

** *Transaction costs incurred relating to this transaction was expensed.*

Notes to the consolidated annual financial statements continued

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33. DISPOSAL OF SUBSIDIARIES continued

Construction and Engineering: South Africa and rest of Africa disposal group

On 25 June 2019, Aveng Water Proprietary Limited was sold for R61 million cash. Aveng Water Proprietary Limited formed part of the *Construction and Engineering: South Africa and the Rest of Africa* disposal group. The subsidiary was not considered an operating segment nor a separate major line of business or geographical area.

30 June 2019	Aveng Water Proprietary Limited Rm
Net cash impact of sale	
Total Assets (excluding cash and bank balances)	20
Property, plant and equipment, net of accumulated depreciation and impairment losses	*
Inventories	6
Amounts due from contract customers	15
Trade and other receivables, net of provisions	(1)
Cash and bank balances	*
Total liabilities	(34)
Amounts due to contract customers	2
Trade and other payables	(36)
Net assets sold	(14)
Gain on disposal of subsidiary	41
Add back: Associated obligation	34
Net proceeds received in cash	61
Total proceeds received in cash	63
Less: Transaction costs paid*	(2)

* *Transaction costs incurred relating to this transaction were expensed.*

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34. OTHER FINANCE EXPENSES

	2020 Rm	2019 Rm
Interest on other debt instruments	**289**	449
Commitment fees and other costs	**42**	75
Interest on lease liabilities*	**130**	-
	461	524

* As the Group has adopted *IFRS 16* Leases using the modified retrospective approach. As such, the prior year interest on lease liabilities does not represent a restated *IFRS 16* interest expense on lease liabilities.

35. TAXATION

	2020 Rm	2019 Rm
Major components of the taxation expense		
Current taxation		
Local income taxation - current period	**1**	56
Local income taxation - recognised in the current taxation for prior periods	**14**	(1)
Foreign income taxation or withholding taxation - current period	**49**	36
Foreign income taxation or withholding taxation - recognised in the current taxation for prior periods	**(4)**	23
	60	114
Deferred taxation		
Deferred taxation - current period	**71**	130
Deferred taxation - arising from prior period adjustments	**(62)**	-
Deferred taxation - foreign tax rate change	**-**	1
	9	131
	69	245

	2020 %	2019 %
Reconciliation of the taxation expense		
Effective taxation rate on earnings	**(5,9)**	(17,1)
Exempt income and other non-taxable income	**(47,7)**	(4,4)
Deferred taxation asset not recognised	**38,6**	41,6
Disallowable charges	**48,9**	3,4
Foreign tax rate differential and other	**(4,3)**	4,5
Prior year over/under provision	**(4,9)**	-
Withholding taxation	**3,3**	-
	28,0	28,0

South African income taxation is calculated at 28% (2019: 28%) of the taxable income for the year. Taxation in other jurisdictions is calculated at the prevailing rates.

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36. EARNINGS AND HEADLINE EARNINGS PER SHARE

	2020		2019	
	Number of shares	Weighted average number of shares	Number of shares	Weighted average number of shares
Opening balance	**19 394 498 220**	**19 394 498 220**	416 670 931	416 670 931
Issue of shares - Rights issue	**-**	**-**	4 931 854 395	4 763 669 189
Issue of shares - Settlement of convertible bonds	**-**	**-**	14 045 972 894	10 698 028 670
	19 394 498 220	**19 394 498 220**	19 394 498 220	15 878 368 790
Less: Treasury shares				
Aveng Limited Share Purchase Trust	**(6 018 386)**	**(6 018 386)**	(6 018 386)	(6 018 386)
Aveng Management Company (Pty) Ltd	**(788 684)**	**(788 684)**	(788 684)	(788 684)
Equity-settled share-based payment plan	**(18 046 763)**	**(18 046 763)**	(18 046 763)	(18 019 366)
Total treasury shares	**(24 853 833)**	**(24 853 833)**	(24 853 833)	(24 826 436)
Rights issue - Bonus element*	**-**	**-**	-	141 939 095
Weighted average number of shares	**19 369 644 387**	**19 369 644 387**	19 369 644 387	15 995 481 449
Diluted weighted average number of shares**	**19 369 644 387**	**19 369 644 387**	19 369 644 387	15 995 481 449
Note	21		21	

* *This item is in relation to the bonus element of the rights issue that was closed on 29 June 2018. The bonus element resulted due to the exercise price being less than the fair value of the share on 29 of June 2018.*

** *The convertible bonds were anti-dilutive for the year ended 30 June 2019 and have therefore not been included in the calculation of diluted number of shares.*

	Gross of taxation Rm	Net of taxation Rm	Gross of taxation Rm	Net of taxation Rm
Determination of headline loss				
Loss for the period attributable to equity holders of parent		**(1 119)**		(1 681)
Impairment of intangible assets	**15**	**15**	34	34
Impairment of property, plant and equipment	**132**	**132**	163	163
Impairment of property, plant and equipment - Held for Sale	**-**	**-**	44	44
Impairment of equity accounted investments	**21**	**21**	-	-
Gain on disposal of assets Held for Sale	**(24)**	**(24)**	(203)	(203)
Gain on disposal of subsidiaries	**(10)**	**(10)**	(41)	(41)
Gain on disposal of property, plant and equipment	**(61)**	**(47)**	(36)	(36)
Loss on derecognition of components	**69**	**69**	124	124
Fair value adjustment on properties and disposal groups classified as Held for Sale	**13**	**13**	51	51
Headline loss		**(950)**		(1 545)
Diluted Headline loss		**(950)**		(1 545)
HEPS from continuing & discontinued operations				
Headline loss per share - basic (cents)		**(4,9)**		(9,7)
Headline loss per share - diluted (cents)		**(4,9)**		(9,7)
Issued shares		**19 394,5**		19 394,5
Weighted average shares		**19 369,6**		15 995,5
Diluted shares		**19 369,6**		15 995,5

Notes to the consolidated annual financial statements continued

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37. CASH UTILISED FROM OPERATIONS

	2020 Rm	2019 Rm
Loss before taxation from continuing operations	**(745)**	(778)
Loss before taxation from discontinued operations	**(302)**	(657)
Loss before taxation	**(1 047)**	(1 435)
Finance earnings	**(32)**	(181)
Finance expenses	**461**	587
Dividend earnings	**(25)**	(3)
Share of loss from equity-accounted investment	**19**	30
	(624)	(1 002)

38. NON-CASH AND OTHER MOVEMENTS

	2020 Rm	2019 Rm
Impairment loss on goodwill, property, plant & equipment and intangible assets	**147**	241
Impairment loss on equity-accounted investments	**21**	-
Claims write-down	**227**	-
Gain on sale of assets Held for Sale	**(24)**	(203)
Gain on sale of subsidiaries	**(10)**	(41)
Gain on disposal of property, plant & equipment	**(61)**	(36)
Fair value adjustment on properties and disposal groups classified as Held for Sale	**13**	51
Unrealised foreign exchange losses on borrowings and other liabilities	**(5)**	1
Realised foreign exchange gain	**(12)**	-
Movements in foreign currency translation	**(212)**	(44)
Derecognition of components included in Property, Plant & Equipment	**69**	124
Increase in long-term loan receivable	**(43)**	-
Movement in equity-settled share-based payment reserve	**-**	1
Gain on redemption of convertible bond	**-**	(102)
	110	(8)

39. FINANCE EXPENSES PAID

	Note	2020 Rm	2019 Rm
Amount charged to the statement of comprehensive earnings	34	**(461)**	(587)
Finance expenses capitalised		**18**	-
Movement in finance expenses unpaid		**(6)**	74
		(449)	(513)

40. FINANCE EARNINGS RECEIVED

	2020 Rm	2019 Rm
Amount charged to the statement of comprehensive earnings	**32**	181
	32	181

41. TAXATION PAID

	Note	2020 Rm	2019 Rm
Amounts overpaid/(unpaid) at the beginning of the period		**43**	39
Amounts charged to the statement of comprehensive earnings - normal tax	35	**(60)**	(114)
Amounts (overpaid)/unpaid at the end of the period		**(41)**	(43)
Amounts relating to foreign currency translation movement		**8**	28
		(50)	(90)

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42. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Opening balance Rm	Adoption of *IFRS 16* Rm	Net cash flow movement Rm	Unrealised foreign exchange (gains) / losses Rm	Lease liabilities non-cash movements* Rm	Other non-cash movements Rm	Closing balance Rm
2020							
Interest bearing loans and borrowings held at amortised cost	**2 145**	**-**	**(275)**	**(5)**	**-**	**18**	**1 883**
Lease liabilities	**-**	**557**	**(158)**	**-**	**98**	**-**	**497**
	2 145	**557**	**(433)**	**(5)**	**98**	**18**	**2 380**
Note				38			
Current liabilities							**1 067**
Non-current liabilities							**1 313**
							2 380

	Opening balance Rm	Net cash flow movement Rm	Unrealised foreign exchange (gains) / losses Rm	Lease liabilities non-cash movements* Rm	Other non-cash movements Rm	Closing balance Rm
2019						
Interest bearing loans and borrowings (including finance lease liabilities excluding convertible bond liability)	1 358	786	1	-	-	2 145
Convertible bond liability	1 929	(2 031)	-	-	102	-
	3 287	(1 245)	1	-	102	2 145
Current liabilities						695
Non-current liabilities						1 450
						2 145

* *New lease liabilities amounting to R98 million were entered into in the current year. This is considered a non-cash movement as a corresponding increase was noted in the right-of-use assets.*

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43. COMMITMENTS

	2020 Rm	2019 Rm
Authorised capital expenditure		
- Contracted	**53**	14
- Authorised, but not contracted	**3**	1
Total capital expenditure	**56**	15
It is anticipated that this expenditure will be in respect of capital equipment which will be financed from existing cash or borrowing facilities.		
Operating leases commitments		
Future minimum lease payments under non-cancellable operating leases are as follows:		
Continuing operations		
- within one year	*	295
- in second to fifth year inclusive	*	850
- later than five years	*	746
Discontinued operations		
- within one year	*	47
- in second to fifth year inclusive	*	31
- later than five years	*	2
	*	1 971

* *Following the implementation of* IFRS 16*, the Group does not have any operating lease commitments in the current year. Refer to note 22: Borrowings and other liabilities for details of the lease liabilities commitments.*

Operating lease commitments – adoption of *IFRS 16 Leases*

The Group has adopted *IFRS 16* using the modified retrospective approach, with the effect of initially applying the standard recognised at the transition date (ie 1 July 2019). Accordingly, the information presented for 30 June 2019 has not been restated – ie it is presented, as previously reported under *IAS 17*, *IFRIC 4* and related interpretations.

On adoption of *IFRS 16*, the Group recognised lease liabilities in relation to leases which had been previously classified as 'operating leases' under the principles of *IAS 17* as well as those contracts which may meet the definition of leases under *IFRS 16*, not previously classified as 'operating leases' under *IAS 17*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's weighted average incremental borrowing rate at as of 1 July 2019.

Reconciliation of operating lease commitments at 30 June 2019 to lease liabilities at 1 July 2019	Rm
Operating lease commitments disclosed as at 30 June 2020	**1 971**
Recognition exemption for:	
- Short-term leases recognised on a straight-line basis as an expense	**(105)**
- Low-value leases recognised on a straight-line basis as an expense	**(4)**
Contracts reassessed as lease contracts	**78**
Extension and termination options reasonably certain to be exercised	**147**
Discounted using the lessee's weighted average incremental borrowing rate at the transition date	**(604)**
Lease liabilities classified as Held for Sale*	**(926)**
Lease liability recognised as at 1 July 2019	**557**
Current liabilities	**241**
Non-current liabilities	**316**
	557

* *The operating lease commitments included in the* Construction and Engineering: South Africa *and* Manufacturing and Processing *disposal groups are classified as Held for Sale at 1 July 2019 and are accounted for in terms of* IFRS 5.

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44. CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities at the reporting date, not otherwise provided for in interim results, arise from performance bonds and guarantees issued in:

	2020 Rm	2019 Rm
South Africa and rest of Africa		
Guarantees and bonds (Zarma)	**1 018**	1 491
Parent company guarantees (ZARm)	**30**	30
	1 048	1 521
Australasia and Asia		
Guarantees and bonds (AUDm)	**290**	270
Parent company guarantees (AUDm)	**22**	44
	312	314

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 position 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 probable.

45. DIRECTORS' EMOLUMENTS AND INTERESTS

Directors' emoluments below are disclosed in Rand thousands (R'000):

Executive directors

	Year	Salary[1] R'000	Retirement fund[2] R'000	Statutory termination payments[3] R'000	Cash incentive payments R'000	Cash settled CSP[4] R'000	Total[5] R'000
EK Diack[6]	**2020**	**6 047**	**-**	**425**	**-**	**-**	**6 472**
	2019	7 800	-	-	9 802	-	17 602
SJ Flanagan	**2020**	**7 412**	**-**	**-**	**-**	**-**	**7 412**
	2019	3 250	-	-	3 627	-	6 877
AH Macartney	**2020**	**4 798**	**192**	**-**	**-**	**1**	**4 991**
	2019	4 229	213	-	4 287	1	8 730
JJA Mashaba[7]	**2020**	**-**	**-**	**-**	**-**	**-**	**-**
	2019	676	51	1 447	-	1	2 175

1 *Salary for South African directors is total fixed earnings inclusive of contributions towards medical aid, admin & risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the Total Guaranteed Package (TGP). In the month of April, operations were in full lockdown and the principle of "no work, no pay" was applied.*

2 *Retirement fund contributions are also funded from the directors' TGP.*

3 *Statutory termination payments include leave pay and notice pay.*

4 *Vested Cash-Settled Conditional Share Plan (CSP) Awards (FY16 Award) relating to the final tranche of Bonus Shares.*

5 *The Total reflected includes all cash payments made to the executive director in the Financial Year.*
The Single Figure of Remuneration reflected in Part 3 of the Remuneration Report will differ based on the requirements of King IV™.

6 *EK Diack stepped down as Executive Chairman with effect from 30 April 2020.*

7 *JJA Mashaba resigned on 31 August 2018.*

HJ Verster resigned 30 September 2017 and his exit arrangements were agreed and included in a settlement agreement signed by the parties at that time. As previously stated, the agreement included a provision for a clawback and was subject to a dispute between the parties. In March 2020, a second settlement agreement was signed by the parties in which HJ Verster was required to refund R5 million to the company in order to settle the dispute. The full amount has been received by the company.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

45. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Non-executive directors

	Directors' fees R'000	Lead independent directors fees R'000	Chairperson fees R'000	Committee fees R'000	Other fees[1] R'000	Total R'000	Reduction in fees April to June[2] R'000	Total R'000
2020								
MA Hermanus	**120**	**464**	**336**	**270**	**-**	**1 190**	**(106)**	**1 084**
MJ Kilbride	**451**	**-**	**166**	**499**	**-**	**1 116**	**(101)**	**1 015**
B Modise[3]	**370**	**-**	**-**	**167**	**-**	**537**	**(74)**	**463**
EK Diack[4]	**119**	**-**	**259**	**19**	**-**	**397**	**(119)**	**278**
	1 060	**464**	**761**	**955**	**-**	**3 240**	**(400)**	**2 840**
PA Hourquebie (£)[5,6]	**92**	**-**	**-**	**15**	**-**	**107**	**(11)**	**96**

Non-executive directors

	Directors' fees R'000	Lead independent directors fees R'000	Chairperson fees R'000	Committee fees R'000	Other fees[1] R'000	Total R'000
2019						
MA Hermanus	274	225	374	170	-	1 043
MJ Kilbride	462	-	162	723	126	1 473
K Mzondeki	338	-	108	241	-	687
SJ Flanagan	274	-	-	616	4 151	5 041
	1 348	225	644	1 750	4 277	8 244
PA Hourquebie (£)[5]	94	-	-	36	6	136

1 *Other fees relate to attendance at subsidiary board meetings and extraordinary services rendered in 2019.*
2 *The Board members undertook a 30% reduction in their fees for April, May and June 2020.*
3 *B Modise was appointed as a non-executive director effective from 1 November 2019 and was appointed as Chair of the audit and risk committee and a member of the investment committee effective 17 June 2020.*
4 *EK Diack stepped down as executive chairman with effect from 30 April 2020 and continued as a non-executive chairman until he retired from the Board on 12 June 2020*
5 *PA Hourquebie fees are disclosed in British Pounds (£).*
6 *PA Hourquebie was appointed as non-executive chairman on 17 June 2020*

Annual review of non-executive directors' fees

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

In light of the appointment of a UK-based non-executive director onto the Aveng board as well as two board committees, a detailed, benchmarking exercise comprising of UK based directors serving on JSE listed companies was undertaken to determine a composite fee payable to him. In addition, a per meeting fee was also determined.

While market benchmarks provide an indication of competitiveness of non-executive director fees, other considerations such as company performance and affordability also influence fee increases.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

45. DIRECTORS' EMOLUMENTS AND INTEREST continued

Interest of directors of the Company in share capital

	Ordinary shares 2020	Ordinary shares 2019
Non-executive directors		
MJ Kilbride	**129 999**	129 999

Cash-Settled Conditional Shares (CSPs)

	Date from which exercisable	Number entitled to at 1 July 2019	Number granted during the year	Number adjusted for Rights Offer during the year	Number redeemed or taken up during the year	Number forfeited during the year*	Number entitled to at 30 June 2020
AH Macartney	**Aug 2019**	**37 908**	**-**	**-**	**37 908**	**-**	-
	Sep 2019	**926 026**	**-**	**-**	**-**	**926 026**	-
		963 934	**-**	**-**	**37 908**	**926 026**	-

* *The performance condition relating to the unvested awards was not met. As per the rules of the scheme, these awards were automatically forfeited.*

Long Term Incentive Plan (LTIP)

	Date from which exercisable	Number entitled to at 1 July 2019	Number granted during the year	Number redeemed or taken up during the year	Number forfeited during the year	Number entitled to at 30 June 2020
AH Macartney	**Dec 2019**	**42 124**	**-**	**-**	**42 124**	**-**
	Dec 2020	**1 323 142**	**-**	**-**	**-**	**1 323 142**
		1 365 266	**-**	**-**	**42 124**	**1 323 142**

Notes to the consolidated annual financial statements continued

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45. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Prescribed officers and other key management personnel

The Companies Act 71 of 2008 (as amended) of South Africa, defines a prescribed officer as a person who exercises general executive control over management of the whole, or a significant portion of, the business and activities of the Group; or regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the Group. It excludes directors and does not refer, in any way, to title held by the person, rather the functions which they perform. The Board has identified the prescribed officers of the Group.

	Year	Salary[1] R'000	Retirement fund[2] R'000	Statutory termination payments[3] R'000	Other payments[4] R'000	Cash incentive payments R'000	Cash settled CSP[5] R'000	Total[8] R'000
JN Govender	**2020**	**4 311**	**210**	**-**	**-**	**-**	**-**	**4 521**
	2019	1 110	71	-	-	-	-	1 181
S Cummins (Aus) [6]	**2020**	**1 048**	**151**	**-**	**-**	**-**	**-**	**1 199**
	2019	1 120	161	-	400	100	-	1 781
SPF White[7]	**2020**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2019	2 452	165	1 654	-	-	1	4 272

1 Salary for South African Prescribed Officers is total fixed earnings inclusive of contributions towards medical aid, admin & risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the Total Guaranteed Package (TGP). In the month of April, operations were in full lockdown and the principle of "no work, no pay" was applied. Salary reductions were also applied at McConnell Dowell for Q4 of 2020.

2 Retirement fund contributions are funded from the Prescribed Officers' TGP.

3 Statutory termination payments include leave pay and notice pay.

4 Other payments relating S Cummins' appointment award. The appointment award was paid in three equal tranches, the final tranche was paid in FY19.

5 Vested Cash-Settled Conditional Share Plan (CSP) Awards (FY16 Award) relating to the Bonus Shares.

6 S Cummins earnings disclosed in AUD'000. Salary amount includes vehicle benefit allowance.

7 SPF White resigned 31 January 2019.

8 The Total reflected includes all cash payments made to the Prescribed Officer in the Financial Year. The Single Figure of Remuneration reflected in Part 3 of the Remuneration Report will differ based on the requirements of King IV™.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

46. RISK MANAGEMENT

The Group is exposed to currency, credit, liquidity and interest rate risks. In order to manage these risks, the Group may enter into transactions which make use of financial instruments. The Group has developed a risk management process to facilitate, control and monitor these risks. This process includes formal documentation of policies, including limits, controls and reporting structures. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investments of excess liquidity.

The executive committee is responsible for risk management activities within the Group. The executive committee meets regularly to review market trends and develop strategies.

Group treasury is responsible for monitoring currency, interest rate and liquidity risk under policies approved by the Board of directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating groups. The Group actively monitors the following risks:

46.1 Capital risk management

The primary objective of the Group's capital management policy is to ensure that the Group maintains a strong credit rating and healthy capital ratios, such as return on invested capital (ROIC), debt to equity and return on equity, in order to support its business.

The Group manages its capital structure and makes adjustments to it in response to changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 30 June 2020 and 30 June 2019.

The Group includes within its net cash position, cash and bank balances less borrowings and other liabilities.

Capital includes equity attributable to the equity-holders of the parent of R1,8 billion (2019: R2,4 billion).

Net operating loss less adjusted tax in 2020 and 2019 contributed to a negative ROIC ratio. The ROIC ratio as at 30 June 2020 and 2019 was as follows:

	2020 Rm	**2019 Rm**
Net operating loss less adjusted tax	**(481)**	(1 250)
Invested capital	**6 700**	7 764
ROIC ratio (%)	**(7,2)**	(16,2)

An improvement in the ROIC ratio was noted in the current year as a result of an improvement in the net operating loss as compared to 2019. Despite the improvement in the ROIC ratio, both continuing and discontinued operations noted net operating losses in the current and prior years; partially as a result of COVID-19 and other operating factors. The capital risk management remains high.

46.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet a financial commitment in any location or currency, as and when they fall due. The Group manages its liquidity risk through its treasury function. Cash flow forecasting is performed by the operating units of the Group and consolidated by Group Treasury.

At year end, the Group had revolving credit facilities of R874 million from various CTA banks, and term facilities of R834 million, all of which were fully drawn. The Group has since conducted a restructure of the debt package. The maturity analysis for derivative and non-derivative financial liabilities has been included (refer to note *46.7: Borrowing capacity*).

At 30 June 2020, the Group had net cash of R1.3 billion available; with further overdraft facilities of R181 million undrawn.

The Group has assessed the liquidity risk as high but remains confident that available cash resources, facilities and operating cash flows will be sufficient to meet its funding requirements.

Of relevance to this note is the information in *note 49: Events after the reporting period* relating to the funding from South African lending banks which relates to the amendments to the debt repayment terms, covenants and extension of borrowing facilities.

The maturity analysis for derivative and non-derivative financial liabilities has been included (refer to note 46.7: *Borrowing capacity).*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

46. RISK MANAGEMENT continued

46.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For interest rate disclosure refer to *note 22: Borrowings and other liabilities*.

The Group's exposure to interest rate risk relates primarily to the Group's debt obligations with variable interest rates and the asset-backed finance which are repayable at a fixed interest rate in quarterly instalments.

The Group's policy is to manage interest rate risk through both fixed and variable, long and short-term instruments.

Cash balances all carry interest at rates that vary in response to prevailing market rates in the respective geographical areas of the Group's operations.

No financial instruments were entered into to mitigate the risk of interest rates.

Interest rate sensitivity

The following table illustrates the effect on the Group's earnings and equity, all other factors remaining constant, of changes in the variable interest liabilities:

	2020 Rm	2019 Rm
Total variable borrowings	**1 389**	1 602
Effect on earnings after taxation - plus 50 basis points increase	**(5)**	(6)
Effect on earnings after taxation - minus 50 basis points increase	**5**	6

46.4 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's material exposure to credit risk is in its receivables (refer to *note 17: Trade and other receivables*), deposits and cash balances (refer to *note 19: Cash and bank balances*), and amounts due from contract customers (refer to *note 16: Amounts due from / (to) contract customers*).

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to contractual terms and credit verification procedures.

Cash balances are all kept at financial institutions with a high credit rating, as determined by credit rating agencies within a credit limit policy which is subject to regular review. Cash balances as per *note 19: Cash and bank balances* represent the maximum credit exposure.

The maximum exposure to credit risk at the reporting date is the carrying value of the amounts due from contract customers as disclosed in note *16: Amounts due from/(to) contract customers* and Trade receivables as disclosed in note *17: Trade and Other Receivables.* The Group evaluates the concentration of risk with respect to amounts due from contract customers and trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due (an appropriate payment term as determined from an analysis of historical data). The Group's performs a specific assessment on amounts that are past due and have indicators that there is no reasonable expectation of recovery and includes these in the provision for expected credit losses – specific debtors. These include amounts relating to financial assets that are written-off but are still subject to enforcement activity.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

46. RISK MANAGEMENT continued

46.4 Credit risk continued

An impairment analysis in line with the requirements of *IFRS 9 Financial Instruments* is performed at the end of the reporting date using a forward-looking 'expected credit loss' (ECL) model. This model uses a '*probability of default/loss given default/ exposure at default' (*PD/LGD/EAD) approach to calculate the expected credit losses. Probability of default is defined by the Group as the pool of obligors that are included in the 0 - 90 days past due category; and the 90 days past due category, that will default in the next 12 months, and is established by applying a benchmark approach using applicable segment's average PD as obtained from external rating agencies based on the classifications established. The Group segments its portfolio of trade receivables and amounts due from contract customers into various segments based on shared risk characteristics to ensure homogeneous grouping of counterparties. The classification of counterparties into the various segments is based on their country of operation, whether the counterparty is rated by an external rating agency, and the segment in which the counterparty operates. The classification is limited to categories established in the Basel II Accord and SARB regulations (ie. Externally rated entities, unrated public institutions. Other unrated corporate entities and other unrated retail entities). The Group uses judgement to appropriately notch down the ratings assigned to various categories of debt into categories appropriate to the Group's credit risk.

Expected Credit losses on Trade Receivables and Amounts due from Contract Customers

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The impact on the Group is that the credit risk has increased, however not significantly.

Impact of COVID-19

The assessment of recoverability of amounts due from contract customers and trade receivables at 30 June 2020 has considered the impacts of COVID-19 and no material recoverability issues have been identified.

46.4.1 Trade and other receivables

Ageing analysis of trade receivables

	<30 days Rm	30 to 60 days Rm	60 to 90 days Rm	Past due and not impaired* Rm	Past due and impaired* Rm	Total Rm
2020						
Trade receivables	**6**	**-**	**-**	**-**	**-**	**6**
Sundry receivables	**333**	**25**	**-**	**-**	**-**	**358**
Provision for expected credit losses - specific debtors	**(26)**	**-**	**-**	**-**	**-**	**(26)**
Provision for expected credit losses	**(3)**	**-**	**-**	**-**	**-**	**(3)**
Net book value	**310**	**25**	**-**	**-**	**-**	**335**
2019						
Trade receivables	1	-	-	-	2	3
Sundry receivables	148	-	18	4	-	170
Provision for expected credit losses - specific debtors	-	-	-	-	(2)	(2)
Provision for expected credit losses	-	-	-	-	**	-
Net book value	149	-	18	4	-	171

* *Represents accounts past due based on due date in accordance with the contractual payment terms.*

** *Amount less than R1 million*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

46. RISK MANAGEMENT continued

46.4 Credit risk continued

46.4.1 Trade and other receivables continued

Trade and other receivables impaired

As at 30 June 2020, trade receivables with a nominal value of R29 million (2019: R2 million) (expected credit losses - specific debtors and expected credit losses) were provided for in a provision account. The Group uses Level 3 valuation techniques to measure trade and other receivables and provision for expected credit losses. There have been no transfers between fair value hierarchy levels.

The maximum exposure to credit risk in relation to trade and other receivables:

	2020 Rm	2019 Rm
Trade and other receivables	**364**	173
Provision for expected credit losses - specific debtors	**(26)**	(2)
Provision for expected credit losses	**(3)**	**
	335	171
Reconciliation of provision for expected credit losses - specific debtors		
Opening balance	**2**	56
Raised during the year	**36**	23
Utilised	**(12)**	(77)
	26	2
Reconciliation of provision for expected credit losses		
Opening balance	*****	-
Opening balance adjustment:		
- adoption of IFRS 9 accounting standard	**-**	4
Transferred from / (to) Held for Sale	**-**	(4)
Raised during the year	**3**	-
	3	*

* Amounts less than R1 million

46.4.2 Amounts due from/ (to) contract customers

The maximum exposure to credit risk in relation to amounts due from/ (to) contract customers is equal to the carrying value as presented in *note 16: Amounts due from/(to) contract customers*.

The ageing of contract and retention receivables and related provisions as at 30 June is as follows:

	<30 days Rm	30 to 60 days Rm	60 to 90 days Rm	Past due not impaired* Rm	Past due and impaired* Rm	Total Rm
2020						
Contract and retention receivables	**1 968**	**82**	**8**	**111**	**1**	**2 170**
Provision for expected credit losses	**-**	**-**	**-**	**-**	**(1)**	**(1)**
Net book value	**1 968**	**82**	**8**	**111**	**-**	**2 169**
2019						
Contract and retention receivables	1 667	71	60	154	1	1 953
Provision for expected credit losses	-	-	-	-	(1)	(1)
Net book value	1 667	71	60	154	-	1 952

* *Represents accounts past due based on due date in accordance with contractual payment terms.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

46. RISK MANAGEMENT continued

46.4 Credit risk continued

46.4.2 Amounts due from/ (to) contract customers continued

Analysis of past due accounts

Included in contract receivables are amounts that are past due but not impaired, these have been adequately assessed for impairment.

	2020 Rm	2019 Rm
Reconciliation of provisions relating to Amounts due from contact customers		
Provision for expected credit losses – specific debtors		
Opening balance	**-**	2
Utilised	**-**	(2)
	-	-
Provision for expected credit losses		
Opening balance	**1**	-
Adoption of *IFRS 9* accounting standard**	**-**	2
Transferred to Held for Sale	**-**	(1)
Raised during the year	*****	-
Utilised	*****	-
	1	1

* *Amounts less than R1 million.*

** *The adoption of the expected credit loss model under IFRS 9 has impacted the prior year amounts due from contract customers opening balance by R2 million. Comparatives have not been amended as detailed in the note, above.*

	Uncertified claims and variations Rm	Contract continge-ncies Rm	Contract receivables Rm	Provision for expected credit losses Rm	Retention receivables Rm	Total Rm
2020						
Current assets	**652**	**(290)**	**2 121**	**(1)**	**49**	**2 531**
	652	**(290)**	**2 121**	**(1)**	**49**	**2 531**
2019						
Non-current assets	462	-	-	-	-	462
Current assets	569	(361)	1 916	(1)	36	2 159
	1 031	(361)	1 916	(1)	36	2 621

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

46. RISK MANAGEMENT continued

46.4 Credit risk continued

46.4.3 Credit risk mitigation

Where appropriate, the Group obtains collateral and uses first loss trade credit insurance to mitigate risk.

The Group has credit risk mitigating policies in place for all its operating segments. Due to the significant credit risk associated with contract and retention receivables, it is the Group's policy to obtain unassignable security by bank guarantees or insurance bonds on large projects returnable on the expiration of the defect liability period or practical completion, where part security is returnable. The security is callable in relation to the debt under construction contracts.

Credit risk mitigating measures include builder's liens. The Group has right of retention over the constructed, enhanced or repaired building or structure (site) or portion thereof by means of retaining physical control of the site to secure payment of the contract price. The builder 's lien is not waived and remains in effect until the completion of the contract or credit worthiness and payment record of the contracting party has been established. A builder's lien may be waived in lieu of a bank guarantee in accordance with the Group's commercial risk framework. The builder's lien in respect of claims is not waived and remains in effect until such time as the Group's claim has been satisfied or the Group has been provided with appropriate alternative security in respect of its claim.

A holding company guarantee is obtained if required by the underlying contract from the contracting party's holding company. The Group may in certain instances institute a right to suspend the contract as recourse for non-payment in accordance with the Group's commercial risk framework. Where a suspension applies, it provides for demobilisation, mobilisation and delay costs associated with the extension of time.

46.5 Foreign exchange risk

The Group has limited transactional currency exposures. Such exposure arises from sales or purchases by a division, subsidiary, associate or joint arrangements (operating unit) in currencies other than the unit's functional currency. An insignificant amount of the Group's sales is denominated in currencies other than the functional currency of the operating unit making the sale, and the majority of costs are denominated in the unit's functional currency.

The following table demonstrates the sensitivity to a reasonably possible change in the closing rate of material currencies with which the Group operates, all other variables held constant, on the Group's earnings before taxation (due to changes in the fair value of foreign denominated monetary assets and liabilities at year-end).

Material currencies were determined based on exposure and volume of transactions.

	Closing exchange rate at 30 June	Change in year-end rate Increase of 5%	Change in year-end rate Decrease of 5%	Effect of an increase of 5% (Rm)	Effect of a decrease of 5% (Rm)
2020					
Australian Dollar (AUD)	**11,96**	**12,56**	**11,36**	**(13)**	**13**
United States Dollar (USD)	**17,37**	**18,24**	**16,50**	*****	*****
Euro (EUR)	**19,51**	**20,49**	**18,53**	*****	*****
Effect on earnings before taxation**				**(13)**	**13**
2019					
Australian Dollar (AUD)	9,90	10,40	9,41	(30)	30
United States Dollar (USD)	14,10	14,81	13,40	*	*
Euro (EUR)	16,06	16,86	15,26	*	*
Effect on earnings before taxation**				(30)	30

* *Amounts less than R1 million.*

** *Represents the changes in the fair value of foreign denominated trade and other payables and trade and other receivables at year-end.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

46. RISK MANAGEMENT continued

46.6 Foreign currency risk

The carrying value by functional currency of the Group's monetary assets and liabilities are as follows:

	Notes	Rand equivalent amount (Rm) ZAR Rm	USD Rm	AUD* Rm	EUR Rm	Other Rm	Total Rm
2020							
Monetary assets as per the statement of financial position							
Non-current assets							
Derivative instruments	15	**1**	-	-	-	-	**1**
Long-term receivables		**43**	-	-	-	-	**43**
Current assets							
Derivative instruments	15	**9**	-	-	-	-	**9**
Amounts due from contract customers	16	**385**	**41**	**2 095**	-	**10**	**2 531**
Trade and other receivables	17	**130**	**6**	**200**	-	**22**	**358**
Cash and bank balances	19	**45**	**16**	**1 673**	-	**21**	**1 755**
Monetary assets classified as Held for Sale							
Amounts due from contract customers	20	**8**	-	-	-	-	**8**
Trade and other receivables	20	**457**	-	-	-	**2**	**459**
		1 078	**63**	**3 968**	-	**55**	**5 164**
Monetary liabilities as per the statement of financial position							
Non-current liabilities							
Borrowings and other liabilities	22	**1 049**	-	**264**	-	-	**1 313**
Payables other than contract-related	23	**104**	-	-	-	-	**104**
Employee-related payables	25	**46**	**1**	**283**	-	-	**330**
Current liabilities							
Amounts due to contract customers	16	**131**	-	**1 159**	-	-	**1 290**
Borrowings and other liabilities	22	**895**	-	**172**	-	-	**1 067**
Payables other than contract-related	23	**44**	-	-	-	-	**44**
Employee-related payables	25	**128**	**11**	**104**	-	-	**243**
Trade and other payables	24	**1 041**	**11**	**1 688**	-	**24**	**2 764**
Bank overdrafts	19	**424**	-	-	-	-	**424**
Monetary liabilities classified as Held for Sale							
Borrowings and other liabilities	20	**825**	-	-	-	-	**825**
Employee-related payables	20	**62**	-	-	-	-	**62**
Trade and other payables	20	**442**	-	-	-	**19**	**461**
Amounts due to contract customers	20	**7**	-	-	-	-	**7**
		5 198	**23**	**3 670**	-	**43**	**8 934**
Net Exposure		**(4 120)**	**40**	**298**	-	**12**	**(3 770)**

* *This amount includes exposure to NZD and other currencies within the Australasia and Southeast Asia market.*

Notes to the consolidated annual financial statements continued

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46. RISK MANAGEMENT continued

46.6 Foreign currency risk continued

	Notes	Rand equivalent amount (Rm) ZAR Rm	USD Rm	AUD* Rm	EUR Rm	Other Rm	Total Rm
2019							
Monetary assets as per the statement of financial position							
Non-current assets							
Amounts due from contract customers	16	-	-	462	-	-	462
Current assets							
Amounts due from contract customers	16	348	38	1 751	-	22	2 159
Trade and other receivables	17	44	7	117	-	26	194
Cash and bank balances	19	487	24	1 026	5	63	1 605
Monetary assets classified as Held for Sale							
Amounts due from contract customers	20	374	-	-	-	27	401
Trade and other receivables	20	1 230	24	7	3	13	1 277
		2 483	93	3 363	8	151	6 098
Monetary liabilities as per the statement of financial position							
Non-current liabilities							
Borrowings and other liabilities	22	1 394	-	56	-	-	1 450
Payables other than contract-related	23	115	-	-	-	-	115
Employee-related payables	25	44	1	200	-	-	245
Current liabilities							
Derivative instruments	15	1	-	-	-	-	1
Borrowings and other liabilities	22	573	-	122	-	-	695
Payables other than contract-related	23	21	-	-	-	-	21
Employee-related payables	25	156	9	109	-	9	283
Trade and other payables	24	986	9	1 657	-	31	2 683
Amounts due to contract customers	16	168	-	645	-	-	813
Monetary liabilities classified as Held for Sale							
Borrowings and other liabilities	20	2	-	-	-	-	2
Employee-related payables	20	223	1	1	2	3	230
Trade and other payables	20	2 138	17	11	4	24	2 194
Amounts due to contract customers	20	214	-	-	-	10	224
		6 035	37	2 801	6	77	8 956
Net Exposure		(3 552)	56	562	2	74	(2 858)

* *This amount includes exposure to NZD and other currencies within the Australasia and Southeast Asia market.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

46. RISK MANAGEMENT continued

46.7 Borrowing capacity

The Group's borrowing capacity is set out in accordance with the terms of the Company's memorandum of incorporation.

	2020 Rm	2019 Rm
The Group had the following undrawn facilities:		
Borrowing facilities	**2 185**	2 242
Overdraft facilities	**605**	205
Current utilisation	**(2 307)**	(2 145)
Total facilities available	**483**	302

Maturity profile of financial instruments

The maturity profile of the recognised financial instruments are summarised below. These profiles represent the discounted cash flows that are expected to occur in the future.

Financial Instruments	Less than one year Rm	One to five years Rm	More than five years Rm	Total Rm
2020				
Non-derivative financial liabilities				
Interest bearing borrowings	**1 062**	**1 013**	**-**	**2 075**
Lease liabilities	**208**	**287**	**106**	**601**
Amounts due to contract customers	**1 290**	**-**	**-**	**1 290**
Trade and other payables	**2 764**	**-**	**-**	**2 764**
	5 324	**1 300**	**106**	**6 730**
2019				
Non-derivative financial liabilities				
Interest bearing borrowings	972	1 916		2 888
Amounts due to contract customers	813	-		813
Trade and other payables	2 683	-		2 683
	4 468	1 916		6 384

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

47. FAIR VALUE OF ASSETS AND LIABILITIES

The Group measures the following financial instruments at fair value:

- Infrastructure investments
- Forward exchange contracts (FECs)

Infrastructure investments

The Group measures its remaining infrastructure investment, Dimopoint Proprietary Limited at fair value through profit or loss. The investments in Imvelo Concession Company Proprietary Limited and Firefly Investments 238 Proprietary Limited were classified as Held for Sale in the prior year – refer to *note 13: Infrastructure investments* and *note 20: Non-current assets and liabilities classified as Held for Sale*.

(i) Dimopoint Proprietary Limited (Dimopoint)

Methodology

The value of the Group's share in Dimopoint was determined on the basis of the underlying long-term contractual rental streams. The fair value was determined based on the underlying investment property portfolio. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties and discounted cash flows. The valuation takes into consideration the selling price, escalations per year, rental income escalation per year and risk- adjusted discount rates.

Valuation parameters and assumptions

The following parameters and assumptions were considered in arriving at the valuation:

- In estimating the fair value of the properties, the highest and best use of the properties is taken into account
- Free cash flows based on the underlying long-term contractual rental streams
- Market comparable yields applicable to the underlying investment property portfolio

(ii) Imvelo Concession Company Proprietary Limited (Imvelo)

Methodology

The value of the Group's share in Imvelo was determined by calculating the present value of the projected equity cash flows related to the Group's 30% shareholding. A risk adjusted discount rate of 17.0% was applied. The projected equity cash flows comprise dividends, shareholder loan interest and principal payments and advances of equity. The cash flows were sourced from the independently audited and lender approved base case financial model. The financial model is based upon a 27-year concession term in accordance with the unitary payment, indexation and other provisions of the Public Private Partnership Agreement with the Department of Environmental Affairs.

Valuation parameters and assumptions

The following parameters and assumptions were considered in arriving at the valuation:

- In estimating the fair value of Imvelo, a discount rate of 17.0% was applied
- Free cash flows based on the underlying long-term contractual equity distributions (dividends) and shareholder loan interest and principal repayments.

(iii) Firefly Investments 238 Proprietary Limited (Firefly)

Methodology

The value of the Group's share in Firefly was determined on the basis of the long-term contractual operations and maintenance fees charged by Firefly. The fair value was determined by performing a discounted cash flow valuation over a contract term of approximately 20 years.

Valuation parameters and assumptions

The following parameters and assumptions were considered in arriving at the valuation:

- In estimating the fair value of Firefly, a discount rate of 14.8% was applied
- Free cash flows based on the underlying long-term contractual revenue streams and operating cost forecasts
- Long term revenue and cost indexation (ZAR based) of 2.1% and 1.2% (EUR based) respectively

Forward exchange contracts (FECs)

Valuation methodology

Fair value of FECs is determined using mark-to-market rates. Market prices are based on actively traded similar contracts and are obtained from the financial institution with which the contracts are held.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

47. FAIR VALUE OF ASSETS AND LIABILITIES continued

Fair value hierarchy

The table below sets out the Group's fair value hierarchy and carrying amounts of assets and liabilities:

	Carrying amounts Rm	Fair value Rm	Valuation reference to observable prices Level 1 Rm	Valuation based on observable inputs Level 2 Rm	Valuation based on unobservabl inputs Level 3 Rm
2020					
Assets and liabilities recognised at fair value					
Assets					
Infrastructure investments	**259**	**259**	**-**	**-**	**259**
FECs	**10**	**10**	**-**	**10**	**-**
FECs (Held for Sale)	**9**	**9**	**-**	**9**	**-**
2019					
Assets and liabilities recognised at fair value					
Assets					
Infrastructure investments	142	142	-	-	142
Infrastructure investments (Held for sale)	119	119	-	-	119
Liabilities					
FECs	1	1	-	1	-
FECs (Held for Sale)	1	1	-	1	-

The Group uses Level 2 valuation techniques to measure foreign exchange contracts and Level 3 valuation techniques to measure infrastructure investments. Valuation techniques used are appropriate in the circumstances and for which sufficient data was available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

There were no transfers between the different levels during the period.

There have been no gains and losses recognised attributable to changes in unrealised gains or losses during the year.

Sensitivity analysis: Financial assets valuations using observable and unobservable inputs

The following table shows the sensitivity of significant unobservable inputs used in measuring the fair value of infrastructure investments:

	Significant unobservable input	Reasonably possible changes to significant unobservable inputs	Potential effect recorded directly in profit and loss Increase Rm	 Decrease Rm
Infrastructure investments				
Risk-adjusted discount rate:				
- Dimopoint Proprietary Limited	**16,0%**	**0,5%**	(4)	4
- Imvelo Concessions Company Proprietary Limited	**17,0%**	**0,5%**	(2)	2
- Firefly Investments 238 Proprietary Limited	**14,8%**	**0,5%**	(2)	2

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

48. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with *IAS 32 – Financial Instruments: Presentation*, the Group reports financial assets and financial liabilities, on a net basis on the statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Where relevant the Group reports derivative financial instruments and other financial assets and financial liabilities on a net basis.

The following table shows the impact of netting arrangements on the statement of financial position for recognised financial assets and financial liabilities that are reported net on the statement of financial position and those derivative financial instruments and other financial assets and financial liabilities that are subject to enforceable master netting arrangements or similar agreements which did not qualify for presentation on a net basis. The table also shows potential netting not recognised on the statement of financial position that results from arrangements that do not meet all the *IAS 32* netting criteria, because there is no intention to net settle or realise simultaneously, and related financial collateral that mitigates credit risk.

The net amounts presented are not intended to represent the Group's actual credit exposure as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

	Amounts subject to enforceable netting arrangements									
	Effects of netting on statement of financial position			Related amounts not set-off						
	Gross amounts	Amounts set off	Net amounts reported on the statement of financial position	Offsetting financial instruments	Financial collateral	Net amount	Amounts not subject to enforceable netting arrange-ments	Total as per statement of financial position**	Current	Non-current
30 June 2020										
Derivative instruments	**10**	**-**	**10**	**-**	**-**	**10**	**-**	**10**	**9**	**1**
Derivative instruments - Held for Sale	**9**	**-**	**9**	**-**	**-**	**9**	**-**	**9**	**9**	**-**
Cash and bank*	**1 755**	**-**	**1 755**	**-**	**-**	**1 755**	**1 755**	**1 755**	**1 755**	**-**
Bank overdrafts*	**(1 041)**	**617**	**(424)**	**-**	**-**	**(424)**	**(424)**	**(424)**	**(424)**	**-**
Total Assets	**733**	**617**	**1 350**	**-**	**-**	**1 350**	**1 331**	**1 350**	**1 349**	**1**
30 June 2019										
Derivative instruments	(1)	-	(1)	-	-	(1)	-	(1)	(1)	-
Cash and bank*	1 605	-	1 605	-	-	1 605	1 605	1 605	1 605	-
Total Assets	1 604	-	1 604	-	-	1 604	1 605	1 604	1 604	-

* *Relates to the offsetting of transactional banking counterparty's balances, namely the offsetting of notional bank overdrafts. The balances have been settled against the current accounts.*

** *Total per statement of financial position is the sum of "net amounts reported on the statement of financial position" which are subject to enforceable netting arrangements and "amounts not subject to enforceable netting arrangements".*

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

49. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any significant matter or circumstance arising after the reporting date up to the date of this report except as stated below:

49.1 Sale of non-core businesses and assets

Subsequent to year end, disposals were concluded in respect of Ground Engineering Limited (GEL), Duraset, REHM Grinaker, Infraset Pietermaritzburg and various properties totalling R54 million. These disposals did not require separate disclosure in terms of the JSE Listings Requirements.

49.2 Settlement of Majuba power station claim

On 11 September 2020, the High Court in Johannesburg ordered Eskom SOC to pay R40m plus interest and legal costs to the Group for its work on a rail yard and coal offloading facility at Majuba power station in Mpumalanga. Payment was received in October 2020.

49.3 Supreme Court ruling on N2 Mtentu River bridge project

On 13 November 2020, the Supreme Court of Appeals (SCA) dismissed the application to prevent the South African National Roads Agency SOC Limited (SANRAL) from claiming guarantees from the joint venture between Aveng Africa Proprietary Limited and Strabag International GmbH (ASJV) in respect of the Mtentu River Bridge project. This ruling relates to the guarantees only and has not established any entitlement to retain the proceeds of any guarantee call. Subsequently, SANRAL claimed guarantees amounting to R267 million on 23 November 2020. Aveng will be liable for 50% of the guarantee value. This project remains the subject of litigious matters against SANRAL following from the well-publicised disruptions to the contract by local communities that led to the termination of the contract. The ASJV remains confident that its decision to terminate the contract was contractually valid and also the right thing to do in the circumstances faced at Mtentu, particularly in light of the persistent indications that the unrest had not abated at the time of termination.

Further, on 1 September 2020 a unanimous full bench of the Mthatha High Court upheld the ASJV's appeal against an order obtained by SANRAL in 2019 against the ASJV, whereby SANRAL had attempted to prevent the removal of plant and equipment from the construction site by the ASJV and other contractors. Ultimately the ASJV was vindicated on appeal, with the full bench of the Mthatha High Court finding that in light of the uncontested evidence presented by the ASJV, the order that SANRAL had sought against the ASJV was not appropriate.

49.4 Restructuring and recapitalisation

Aveng has engaged with various stakeholders, including its South African lenders, the holders of notes issued through iNguza Investments (RF) Limited, its largest shareholder and others over the course of the 2020 calendar year. Following the year-end, the Company reached an agreement on a restructure that will result in the introduction of a minimum R300 million new capital, the restructure of the CTA debt package into a smaller restructured term and overdraft facility with a maturity of 3 years and the settlement of the balance thereof by way of a cash settlement or a specific issuance of new ordinary shares and the early settlement of the iNguza notes by way of a cash settlement at a discount or the participation in the restructured term debt. The agreements to give effect to the transaction were signed by the parties on 27 November 2020, including:

- The largest shareholder executing the recapitalisation term sheet including a commitment to fully underwrite a rights offering of new equity at 1.5 cents per share, up to R300 million;
- the South African lenders executing the recapitalisation term sheet, including the restructured debt and the settlement of R570 million by way of an issue of shares at 5 cents per share or the cash settlement of 31 cents for every R1 held, subject to the shareholders approving a new issuance of shares at the upcoming AGM;
- the holders of the requisite majority of iNguza notes executing irrevocable letters of undertaking in support of early redemption of the iNguza notes by way of a cash settlement of 31 cents for every R1 held or participation in the South African lenders restructured debt; and
- SA lenders executing an extension letter to extend its existing CTA facilities to 30 June 2022. It is expected that this agreement will be superseded by the restructured term and overdraft facilities described above once the restructure and recapitalisation transaction has received the necessary shareholder approval and been implemented.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

50. RELATED PARTIES

During the period the Group, in the ordinary course of business, entered into various sale and purchase transactions with entities which are equity accounted for.

The Group also had transactions and balances with associates, joint ventures, key management personnel, entities controlled by key management personnel and principal shareholders. These are detailed below.

Refer to transactions with key management disclosed in *note 45: Directors' emoluments and interests*.

The Group had the following significant related party balances and transactions during the reporting period:

Balances with associates, joint ventures, joint operations, key management personnel and entities controlled by key management personnel

Balances between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed.

	2020 Rm	2019 Rm
Associates and joint ventures		
Loans (paid)/ advanced – associates and joint ventures	**-**	(6)
Trade and other receivables – associates and joint ventures	**11**	9
Trade and other payables – associates and joint ventures	**(1)**	(2)
	10	1
Parent company guarantees (ZARm)	**604**	700
Parent company guarantees (AUDm)	**1 823**	4 824

The Group had no balances with key management personnel or balances with entities controlled by key management personnel during the year under review.

Transactions with associates, joint ventures, joint operations, key management personnel and entities controlled by key management personnel

Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed.

	2020 Rm	2019 Rm
Interest received from related parties	**(3)**	-
Management fees received from related parties	**(1)**	-
Rent received from related parties	**(3)**	(14)
	(7)	(14)

The Group had no transactions with key management personnel or transactions with entities controlled by key management personnel during the year under review.

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

51. STRUCTURED ENTITIES

51.1 Nature and extent of significant restrictions relating to investments in subsidiaries

There are significant restrictions on the ability of the Group to require distributions of capital, access the assets, or repay the liabilities of members of its group arising from statutory, regulatory and contractual requirements and from the protective rights of non-controlling interests.

Statutory requirements

The Group's subsidiaries are subject to statutory requirements to not make distributions of capital and unrealised profits so as to maintain solvency. These requirements restrict the ability of subsidiaries to make remittances of dividends to Aveng Limited, the ultimate parent, except in the event of a legal capital reduction or liquidation.

51.2 Unconsolidated structured entities

The level of risk that the Group is exposed to is determined by the nature and purpose of it holding an interest in the entity. Information about such entities has been aggregated according to the purpose for which the entity was established.

	2020 Structured investment vehicles Rm	Total Rm
Assets		
Investment in subsidiaries	*	-
Cash and bank balances	*	-
	*	-
Maximum exposure to loss**	*	-

* *Amounts less than R1 million*

** *The Group's maximum exposure to loss can be calculated as the sum of its assets recognised in the statement of financial position*

	2019 Structured investment vehicles Rm	Total Rm
Assets		
Investment in subsidiaries	1	1
Cash and bank balances	3	3
	4	4
Maximum exposure to loss***	4	4

*** *The Group's maximum exposure to loss can be calculated as the sum of its assets recognised in the statement of financial position*

Financial support provided or to be provided to unconsolidated structured entities

As at the reporting date, the Group has no intention to provide further financial assistance or other support to any of the unconsolidated structured entities.

51.3 Sponsored entities

Other than the unconsolidated structured entities in which the Group has an interest, it does not sponsor any structured entities nor earns any income from its involvement in the unconsolidated structured entities which it sponsors.

Notes to the consolidated annual financial statements
continued
for the year ended 30 June 2020

52. GROUP OPERATING ENTITIES

Name	Country	Aveng Group effective consolidation %
Subsidiaries and consolidated structured entities		
Andersen & Hurley Instruments (SA) Proprietary Limited	South Africa	100
AP Housing Proprietary Limited (formerly Grinaker Pieterse Housing Proprietary Limited)	South Africa	100
Atval Proprietary Limited	South Africa	100
Aveng (Africa) Lesotho Proprietary Limited	Lesotho	100
Aveng Africa Proprietary Limited	South Africa	100
Aveng Australia Holdings Proprietary Limited	Australia	100
Aveng Construcciones Chile Limitada	Chile	100
Aveng Construction and Development Proprietary Limited (formerly Grinaker-LTA Construction and Development Proprietary Limited)	South Africa	100
Aveng Engineering and Mining Services Proprietary Limited (formerly Grinaker-LTA Engineering and Mining Services Proprietary Limited)	South Africa	100
Aveng Intellectual Properties Proprietary Limited (formerly Grinaker-LTA Intellectual Properties Proprietary Limited)	South Africa	100
Aveng Ghana Limited	Ghana	100
Aveng Management Company Proprietary Limited	South Africa	100
Aveng Mining DRC Société à Responsabilité Limitée	Democratic Republic of Congo	100
Aveng Moolmans Burkina Faso SA	Burkina Faso	100
Aveng Moolmans Mauritius Limited	Mauritius	100
Aveng Moolmans Proprietary Limited	South Africa	100
Aveng Mozambique Limitada	Mozambique	100
Aveng Proprietary Limited	Malawi	100
Aveng Rail Australia Proprietary Limited	Australia	100
Aveng Swazi Proprietary Limited	Swaziland	100
Aveng Tanzania Limited	Tanzania	100
Aveng Trident Steel Holdings Proprietary Limited	South Africa	100
Aveng Trident Steel Proprietary Limited	South Africa	100
Aveng Water Treatment Proprietary Limited	Namibia	100
Aveng Zimbabwe (Private) Limited	Zimbabwe	100
Built Environs Proprietary Limited	Australia	100
Built Environs Qld Proprietary Limited	Australia	100
Built Environs WA Proprietary Limited	Australia	100
CMM Consultants Proprietary Limited	South Africa	100
Consorcio Aveng-Mas Errazuriz Société Anonyme	Chile	60

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

52. GROUP OPERATING ENTITIES continued

Name	Country	Aveng Group effective consolidation %
Subsidiaries and consolidated structured entities continued		
Dynamic Fluid Control Water Proprietary Limited	South Africa	100
E+PC Engineering & Projects Company (Zambia) Limited	Zambia	100
E+PC Engineering & Projects Company Australia Proprietary Limited	Australia	100
Fort Concrete Central (Private) Limited	Zimbabwe	100
Fort Concrete Holdings (Private) Limited	Zimbabwe	100
Fort Concrete Koala (Private) Limited	Zimbabwe	100
Grinaker-LTA Construction (Private) Limited	Zimbabwe	100
Grinaker-LTA Construction (Zambia) Limited	Zambia	100
Grinaker-LTA International Construction Limited	Mauritius	100
Grinaker-LTA International Holdings Limited	Mauritius	100
Aveng Properties Proprietary Limited (previously Grinaker-LTA Properties Pty Ltd)	South Africa	100
Grinaker-LTA Zimbabwe Limited	Zimbabwe	100
Grunwald Construction Proprietary Limited	Botswana	100
Hylekite Proprietary Limited	Australia	100
IHIH (Private) Limited	Zimbabwe	100
Ikhule Construction Incubator Proprietary Limited	South Africa	100
Infraset Zambia Limited	Zambia	100
Karibib Mining and Construction Company (Namibia) Limited	Namibia	100
Koala Park Estates (Private) Limited	Zimbabwe	100
LTA Construction Kenya Limited	Kenya	100
LTA Construction Tanzania Limited	Tanzania	100
LTA Mali Société Anonyme	Mali	100
McConnell Dowell (American Samoa) Limited	American Samoa	100
McConnell Dowell (Fiji) Limited	Fiji	100
McConnell Dowell (Malaysia) Sendirian Berhad	Malaysia	100
McConnell Dowell Constructors (Aust.) Proprietary Limited	Australia	100
McConnell Dowell Constructors (PNG) Limited	Papua New Guinea	100
McConnell Dowell Constructors Hong Kong Limited	Hong Kong, China	100
McConnell Dowell Constructors Lao Company Limited	Laos	100
McConnell Dowell Constructors Limited	New Zealand	100
McConnell Dowell Constructors Thai Limited	Thailand	100
McConnell Dowell Corporation (NZ) Limited	Australia	100

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

52. GROUP OPERATING ENTITIES continued

Name	Country	Aveng Group effective consolidation %
Subsidiaries and consolidated structured entities continued		
McConnell Dowell Corporation Limited	Australia	100
McConnell Dowell Holdings Proprietary Limited	Australia	100
McConnell Dowell International Limited	Hong Kong, China	100
McConnell Dowell NC Société à Responsabilité Limitée	New Caledonia	100
McConnell Dowell PDS Sendirian Berhad	Brunei	100
McConnell Dowell Philippines Incorporated	Philippines	100
McConnell Dowell Proprietary Limited	Australia	100
McConnell Dowell Saudi Arabia Limited	Saudi Arabia	100
McConnell Dowell Southeast Asia Private Limited	Singapore	100
Moolman Mining (Botswana) Proprietary Limited	Botswana	100
Moolman Mining Ghana Limited	Ghana	100
Moolman Mining Tanzania Limited	Tanzania	100
Moolman Mining Zambia Limited	Zambia	100
Moolmans Mining Guinea S.A	Guinea	100
Newco (Private) Limited	Zimbabwe	100
NFI Holdings Limited	Thailand	100
Perseroan Terbatas McConnell Dowell Indonesia	Indonesia	94
Perseroan Terbatas McConnell Dowell Services	Indonesia	100
Perseroan Terbatas Wanamas Puspita	Indonesia	100
Toll Highway Development Company Proprietary Limited	South Africa	100
Trident Steel Intellectual Properties Proprietary Limited	South Africa	100
Tweed River Entrance Sand Bypassing Company Proprietary Limited	Australia	100
Umkomazi River Portfolio Proprietary Limited (Formerly Dynamic Fluid Control Proprietary Limited)	South Africa	100
Associates, Joint ventures and Infrastructure Investments		
AEF Mining Services Proprietary Limited	South Africa	30
Dimopoint Proprietary Limited	South Africa	30
Dutco McConnel Dowell Middle East Limited Liability Company*	United Arab Emirates	50
Dutco McConnell Dowell Fabrication Limited Liability Company	Qatar	50
Dutco McConnell Dowell Qatar Limited Liability Company	Qatar	50
Firefly Investments 238 Proprietary Limited	South Africa	45
Grinaker-LTA Fair Construction SARL	Rwanda	50
Imvelo Concession Company Proprietary Limited	South Africa	30
Lesedi Tracks Proprietary Limited	South Africa	25

Notes to the consolidated annual financial statements continued

for the year ended 30 June 2020

52. GROUP OPERATING ENTITIES continued

Name	Country	Aveng Group effective consolidation %
Associates, Joint ventures and Infrastructure Investments continued		
McConnell Dowell Gulf Limited	Hong Kong, China	50
McConnell Dowell Abu Dhabi Limited Liability Company	United Arab Emirates	50
ML JV Proprietary Limited	Australia	50
Northern Toll Road Construction Limited	South Africa	24
Oakleaf Investment Holdings 86 Proprietary Limited*	South Africa	50
REHM Grinaker Construction Co Limited	Mauritius	43
Steeledale Proprietary Limited	South Africa	30

* *The following associates and joint ventures have a reporting period (31 December) which is different to that of the Group.*

Name	Country	Aveng Group effective consolidation %
Joint Operations		
John Holland McConnell Dowell JV – JRL 108 (LTA)	Singapore	50
McConnell Dowell / Decmil Australia – Mordialloc Bypass	Australia	60
McConnell Dowell / Diona - JV - SA Water Frameworks Project	Australia	50
McConnell Dowell / Downer JV - City Rail Link Connectus Project	New Zealand	50
McConnell Dowell / Downer JV - CSM2	New Zealand	50
McConnell Dowell / Downer JV - Wynyard Edge Alliance Project	New Zealand	50
McConnell Dowell / Fletcher Construction / Obayashi Corporation - Waterview	New Zealand	24
McConnell Dowell / GE Betz/ United Group Infratructure (WSRW)	Australia	20
McConnell Dowell / Hebb JV - Pukekohe Treatment Plant	New Zealand	50
McConnell Dowell / Hebb JV - Mangere BNR	New Zealand	50
McConnell Dowell / ITPSA JV - Exxon CRISP Project	Singapore	50
McConnell Dowell / Lend Lease (MLJV Ltd) - Melbourne Airport RDP Project	Australia	50
McConnell Dowell / Marina Technologies and Construction - MBS South Crystal Pavilion	Singapore	65
McConnell Dowell / Obayashi - JV - Warragamba Dam project	Australia	60
McConnell Dowell / OHL JV – K2K Road project	Australia	50
McConnell Dowell / SYS - SPJ Project	Malaysia	65
McConnell Dowell PP Pesero TBK JV – Palembang City Sewerage Project	Indonesia	50
Northern Toll Roads Joint Venture	South Africa	50

Contents

The reports and statements set out below comprise the separate annual financial statements presented to the shareholders:

Separate statement of financial position

as at 30 June 2020

	Notes	2020 Rm	2019 Rm
ASSETS			
Non-current assets			
Investments in subsidiaries	1	**2 726**	2 726
Amounts owing by subsidiaries	2	**1 043**	2 147
		3 769	4 873
Current assets			
Amounts owing by subsidiaries	2	**1 432**	-
Other receivables		**2**	4
Taxation receivable		**1**	-
Cash and bank balances	3	**309**	507
		1 744	511
TOTAL ASSETS		**5 513**	5 384
EQUITY AND LIABLITIES			
Equity			
Stated capital	4	**4 205**	4 205
Reserves		**(391)**	(391)
Retained earnings / (accumulated losses)		**116**	(80)
		3 930	3 734
LIABILITIES			
Non-current liabilities			
Amounts owing to subsidiaries	2	**-**	1 562
		-	1 562
Current liabilities			
Amounts owing to subsidiaries	2	**1 570**	77
Trade and other payables	5	**13**	11
		1 583	88
TOTAL LIABILITIES		**1 583**	1 650
TOTAL EQUITY AND LIABILITIES		**5 513**	5 384

Separate statement of comprehensive income

as at 30 June 2020

	Notes	2020 Rm	2019 Rm
Operating expenses		**(10)**	(48)
Net operating loss	6	**(10)**	(48)
Gain on redemption of convertible bond		**-**	102
Funding fee expense*		**-**	(207)
Impairment / loss on de-recognition of investments / receivables		**(4)**	(12)
Other income		**1**	-
Loss before financing transactions		**(13)**	(165)
Finance earnings	7	**210**	177
Interest on convertible bonds		**-**	(63)
Other finance expenses	8	**-**	(42)
Earnings / (loss) before taxation		**197**	(93)
Taxation	9	**(1)**	10
Earnings / (loss) for the period		**196**	(83)
Other comprehensive earnings			
Other comprehensive earnings for the period**		**-**	20
Total comprehensive earnings / (loss) for the period		**196**	(63)
Results per share (cents)			
Earnings / (loss) - basic	10	**1,0**	(0,5)
Earnings / (loss) - diluted	10	**1,0**	(0,5)
Number of shares (millions)			
In issue	10	**19 394,5**	19 394,5
Weighted Average	10	**19 369,5**	15 995,5
Diluted weighted average	10	**19 369,5**	15 995,5

* *Funding fee expense relates to the settlement of the convertible bond*

** *Net of taxation*

Separate statement of changes in equity

for the year ended 30 June 2020

	Stated Capital* Rm	Equity-settled share-based payment reserve Rm	Foreign currency translation reserve Rm	Convertible bond equity reserve Rm	Other reserves** Rm	Total reserves Rm	Retained earnings / (Accumulated loss) Rm	Total equity Rm
Year ended 30 June 2019								
Balance at 1 July 2018	2 340	39	(54)	268	-	**253**	(285)	**2 308**
Loss for the year	-	-	-	-	-	-	(83)	**(83)**
Other comprehensive earnings / (loss) for the period (net of taxation)	-	-	-	20	-	20	-	**20**
Total comprehensive loss for the period	-	-	-	20	-	20	(83)	**(63)**
Equity-settled share-based payment charge for the period	-	1	-	-	-	1	-	**1**
Redemption of convertible bond	-	-	-	(288)	-	(288)	288	**-**
Share Issue - Rights to qualifying shareholders (4 July 2018)*	461	-	-	-	-	-	-	**461**
Share Issue - Early redemption of convertible bond (25 September 2018)	1 404	-	-	-	-	-	-	**1 404**
Interest waivered due to loan agreement amendment**	-	-	-	-	(377)	(377)	-	**(377)**
Total contributions by and distribution to owners of company recognised directly in equity	1 865	1	-	(288)	(377)	(664)	288	**1 489**
Balance at 30 June 2019	**4 205**	**40**	**(54)**	**-**	**(377)**	**(391)**	**(80)**	**3 734**
Year ended 30 June 2020								
Balance at 1 July 2019	**4 205**	**40**	**(54)**	**-**	**(377)**	**(391)**	**(80)**	**3 734**
Earnings for the year	-	-	-	-	-	-	196	**196**
Total comprehensive earnings for the period	-	-	-	-	-	-	196	**196**
Balance at 30 June 2020	**4 205**	**40**	**(54)**	**-**	**(377)**	**(391)**	**116**	**3 930**
Note	4	11						

* *Inclusive of R31 million transaction costs capitalised.*

** *This is as a result of the amendment to the loan agreement with Aveng Australia Holdings Proprietary Limited(subsidiary) during the current year, in which interest charged on the loan since inception has been waivered. It is treated as capital due to the Parent/ Subsidiary relationship. No interest has been paid between the subsidiary and the Parent during the existence of the loan.*

Separate statement of cash flows

as at 30 June 2020

	Notes	2020 Rm	2019 Rm
Operating activities			
Cash utilised from operations	12	**(13)**	(165)
Non-cash and other movements	14	**(187)**	**(1 139)**
Cash utilised by operations		**(200)**	(1 304)
Changes in working capital:			-
Decrease / (increase) in other receivables		**2**	(2)
Increase / (decrease) in trade and other payables		**2**	(13)
Total changes in working capital		**4**	(15)
Cash utilised by operating activities		**(196)**	(1 319)
Finance expenses paid	15	**-**	(42)
Finance earnings received	16	**210**	25
Taxation paid	13	**(2)**	-
Cash inflow / (outflow) from operating activities		**12**	(1 336)
Operating free cash inflow / (outflow)		**12**	(1 336)
Financing activities with equity-holders			
Proceeds from shares issued		**-**	1 866
Financing activities with debt-holders			
Repayment on early redemption of convertible bonds	19	**-**	(2 031)
Decrease in amounts owing by subsidiaries (bifurcation of intercompany loan)		**-**	(638)
(Increase) / Decrease in amounts owing by subsidiaries		**(210)**	2 861
Cash inflow/ (outflow) from financing activities		**(210)**	**2 058**
Net (decrease) / increase in cash and bank balances		**(198)**	722
Cash and bank balances at beginning of the period		**507**	(215)
Total cash and bank balances at the end of the period	3	**309**	**507**
Net cash/ (debt) position		**309**	507

Notes to the separate annual financial statements

for the year ended 30 June 2020

1. INVESTMENTS IN SUBSIDIARIES

Name of company	Country	% holding 2020	2020 Rm	2019 Rm
Aveng Australia Holdings Proprietary Limited	Australia	100	**216**	216
Capital contribution to Aveng Australia Holdings Proprietary Limited (bifurcation of loan)**	Australia	100	**717**	717
Aveng Africa Proprietary Limited	South Africa	100	**1 793**	1 793
Aveng Properties Proprietary Limited	South Africa	100	*****	*
Aveng Management Company Proprietary Limited	South Africa	100	*****	*
			2 726	2 726
Reconciliation of investments in subsidiaries				
Opening balance			**2 726**	2 009
Capital contribution to Aveng Australia Holdings Proprietary Limited**			**-**	717
			2 726	2 726

* *Amounts are less than R1 million.*

** *On 1 October 2018 a bi-furcation of the loan between the Company and Aveng Australia Holdings Proprietary Limited took place following the interest waiver and remeasurement in terms of IFRS 9. Consequently, R717 million has been transferred to the investment. The legally enforceable loan agreement between the two parties remains unchanged and still represents the full loan value of R1,7 billion.*

All of the entities listed above are consolidated into the Group structure.
The carrying amount of the subsidiaries are shown net of impairment losses.

2. AMOUNTS OWING BY / (TO) SUBSIDARIES

	2020 Rm	2019 Rm
Reconciliation of amounts owing by subsidiaries		
Opening balance	**2 147**	3 388
Current year movement	**328**	(1 241)
Balance at the end of the year	**2 475**	2 147
Reconciliation of amounts owing to subsidiaries		
Opening Balance	**(1 639)**	(73)
Current year movement	**69**	(1 566)
Balance at the end of the year	**(1 570)**	(1 639)
Non-interest bearing to subsidiaries	**2 475**	2 147
Non-interest bearing from subsidiaries	**(1 570)**	(1 639)
Net amounts owing by subsidiaries	**905**	508
Non-current assets	**1 043**	2 147
Current assets	**1 432**	-
Non-current liabilities	**-**	(1 562)
Current liabilities	**(1 570)**	(77)
Net amounts owing by subsidiaries	**905**	508

The total allowance for non-performing loans relating to amounts owing by subsidiaries amounted to R388 million (2019: R388 million), of which R220 million (2019: R220 million) relates to the loan to Aveng Management Company Proprietary Limited, the remaining R168 million (2019: R168 million) relates to loan to Aveng Australia Holdings Proprietary Limited.

Refer to *note 18: Related parties*.

Notes to the separate annual financial statements continued

for the year ended 30 June 2020

3. CASH AND BANK BALANCES

	2020 Rm	2019 Rm
Cash and bank balances*	**309**	507
	309	507

* *The cash balance at year end is part of the committed inter-group support and guarantee structure implemented through Aveng Africa (Pty) Ltd*

4. STATED CAPITAL

	2020 Rm	2019 Rm
Authorised		
180 882 034 263 ordinary shares (2019: 180 882 034 263 ordinary shares)	**9 044**	9 044
Issued		
Stated capital (19 394 498 220 ordinary shares) (2019: 19 394 498 220 ordinary shares)	**4 205**	4 205
Stated capital	**4 205**	4 205
Shares held in terms of equity-settled share-based payment plan		
- Number of shares	**18 046 763**	18 046 763
- Market value (Rm)	*****	*

Reconciliation of number of shares issued	Number of shares	Number of shares
Number of shares in issue	**19 394 498 220**	416 670 931
Issue of shares - Rights issue	**-**	4 931 854 395
Issue of shares - Settlement of convertible bonds	**-**	14 045 972 894
Closing balance	**19 394 498 220**	19 394 498 220
Less: Treasury shares held in terms of the equity-settled share-based payment plan	**(18 046 763)**	(18 046 763)
Number of shares in issue excluding treasury shares	**19 376 451 457**	19 376 451 457

* *Amount less than R1 million.*

5. TRADE AND OTHER PAYABLES

	2020 Rm	2019 Rm
Trade payables	**-**	1
Shareholders for dividends	**6**	5
Accrued expenses	**6**	5
Interest payable	**1**	-
	13	11

Notes to the separate annual financial statements continued

for the year ended 30 June 2020

6. NET OPERATING LOSS

	2020 Rm	2019 Rm
Net operating loss for the year is stated after accounting for the following:		
Auditors' remuneration - fees	**(3)**	(3)
Director's fees	**(5)**	(14)
Legal Fees	**-**	(4)
Consulting Fees	**2**	(22)
Travel and entertainment expenses	**(1)**	-
Public company costs	**(2)**	-

7. FINANCE EARNINGS*

	2020 Rm	2019 Rm
Interest received on amounts owing by subsidiaries	**-**	73
Notional interest earned from subsidiaries	**191**	79
Interest received on bank balances**	**19**	25
	210	177

* *All finance income was calculated using an effective interest rate.*

** *Interest earned on positive bank balances throughout the year.*

8. OTHER FINANCE EXPENSES

	2020 Rm	2019 Rm
Interest on borrowings	*****	29
Transaction costs	**-**	13
	-	42

* *Amounts less than R1 million.*

9. TAXATION

	2020 Rm	2019 Rm
Major components of the taxation income		
Current taxation		
Local income taxation - current period	**1**	-
Total current taxation	**1**	-
Deferred taxation		
Deferred taxation - current period	**-**	(10)
Total deferred taxation	**-**	(10)
Total taxation	**1**	(10)
Reconciliation between applicable taxation rate and effective taxation rate:		
Applicable taxation rate	**28,0**	28,0
Exempt income	**(27,0)**	89,0
Deferred tax asset not recognised	**(0,5)**	(1,4)
Disallowable charges	**0,1**	(105,0)
Effective taxation rate for the year	**0,6**	10,6

Notes to the separate annual financial statements continued

for the year ended 30 June 2020

10. EARNINGS / (LOSS) PER SHARE

	2020 Number of shares	2020 Weighted average number of shares	2019 Number of shares	2019 Weighted average number of shares
Opening balance	**19 394 498 220**	**19 394 498 220**	416 670 931	416 670 931
Issue of shares - Rights issue	**-**	**-**	4 931 854 395	4 763 669 189
convertible bonds	**-**	**-**	14 045 972 894	10 698 028 670
	19 394 498 220	**19 394 498 220**	19 394 498 220	15 878 368 790
Less: Treasury shares				
Aveng Limited Share Purchase Trust	**(6 018 386)**	**(6 018 386)**	(6 018 386)	(6 018 386)
Aveng Management Company Proprietary Limited	**(788 684)**	**(788 684)**	(788 684)	(788 684)
Equity-settled share-based payment plan	**(18 046 763)**	**(18 019 366)**	(18 046 763)	(18 019 366)
Total treasury shares	**(24 853 833)**	**(24 826 436)**	(24 853 833)	(24 826 436)
Rights issue - bonus element*	**-**	**-**	-	141 939 095
Weighted average number of shares	**19 369 644 387**	**19 369 671 784**	19 369 644 387	15 995 481 449
Diluted weighted average number of shares in issue**	**19 369 644 387**	**19 369 671 784**	19 369 644 387	15 995 481 449
Refer to note	4		4	

	2020 Rm	2019 Rm
Determination of diluted loss		
Earnings/ (loss) for the period attributable to equity-holders of the parent	**196**	(83)
Diluted earnings/ loss for the period attributable to equity-holders of the parent*	**196**	(83)
Earnings/ loss per share - basic (cents)	**1,0**	(0,5)
Earnings/ loss per share - diluted (cents)	**1,0**	(0,5)

* *This item is in relation to the bonus element of the rights issue that was closed on 29 June 2018. The bonus element resulted due to the exercise price being less than the fair value of the share on 29 June 2018.*

** *The convertible bonds were anti-dilutive for the year ended 30 June 2020 and 2019 and have therefore not been included in the calculation of diluted number of shares.*

11. EQUITY-SETTLED SHARE-BASED PAYMENT

The Company has a forfeitable share plan in place under which certain senior executives have been granted shares in the Company. A description of the plan as well as the terms and conditions relating to awards made are disclosed in the remuneration report.

	2020 Rm	2019 Rm
Opening balance	**40**	39
Equity-settled share-based payment	**-**	1
	40	40

Notes to the separate annual financial statements continued

for the year ended 30 June 2020

11 EQUITY-SETTLED SHARE-BASED PAYMENT continued

Forfeitable share plan

In terms of the Company FSP, senior executives of the Company, including executive directors, are granted shares in the Company for no consideration. The provision of shares will initially serve as a retention mechanism but can in future be used as an incentive mechanism with retention awards only made on an ad hoc basis as and when required. As such, there are no other performance conditions attaching to awards made to date. Vesting of the awards will be subject to the satisfaction of the conditions measured over the period of three years. These shares participate in dividends and shareholder rights from grant date. The shares are subject to forfeit if the employee leaves the employment of the Group prior to the third anniversary of the award date.

On resignation, the employee will forfeit all unvested shares. On death, retrenchment, sale of employer company, disability or retirement, only a portion of the shares will vest, calculated based on the number of months worked over the total vesting period, subject to the satisfaction of performance conditions, if any are applicable at that stage. The plan is settled in shares and therefore is equity settled. There are no portions of the plan that have been cash settled.

This scheme was replaced by the Aveng Long Term Incentive Plan (LTIP) approved at the AGM in October 2015.

	Number of shares 2020	Number of shares 2019
The movements during the year were as follows:		
Opening balance	-	2 265 200
Shares forfeited*	-	(2 265 200)
Closing balance	-	-

* *In light of the performance condition not being satisfied forfeitable shares were forfeited in terms of the rules of the scheme.*

		Note	2020 Rm	2019 Rm
12.	**CASH UTILISED FROM OPERATIONS**			
	Profit / (Loss) before taxation		**197**	(93)
	Adjustments for:			
	Finance earnings	7	**(210)**	(177)
	Finance and transaction expenses	15	**-**	105
			(13)	(165)
13.	**TAXATION PAID**			
	Amounts unpaid at the beginning of the period		**-**	-
	Amounts charged to the statement of comprehensive earnings - normal tax	9	**(1)**	-
	Amounts unpaid at the end of period		**(1)**	-
			(2)	-
14.	**NON-CASH AND OTHER MOVEMENTS**			
	Profit on redemption of convertible bond		**-**	(102)
	Cession and delegation of intercompany loan to Aveng Africa Proprietary Limited	19	**-**	(820)
	Notional interest (Bifurcation of intercompany loan)		**(191)**	(79)
	Funding fee expense		**-**	207
	Interest waivered		**-**	(377)
	Deferred tax on convertible bond		**-**	20
	Intercompany loan receivable written off		**4**	12
			(187)	(1 139)

Notes to the separate annual financial statements continued

for the year ended 30 June 2020

		2020 Rm	2019 Rm
15.	**FINANCE AND TRANSACTION EXPENSES PAID**		
	Amounts charged to the statement of comprehensive earnings	**-**	(105)
	Movement in accrued finance expenses	**1**	63
		1	(42)
16.	**FINANCE EARNINGS RECEIVED**		
	Interest received	**210**	177
	Movement in accrued finance earnings	**-**	(152)
		210	25
17.	**CONTINGENT LIABILITIES**		
	Contingent liabilities at reporting date, not otherwise provided for in the financial statements, arising from:		
	Parent Company guarantees issued in:		
	- Australasia and Asia (AUDm)	**22**	44

Contract performance guarantees issued by the parent company on behalf of its 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.

18. RELATED PARTIES

During the year the Company and its subsidiaries, in the ordinary course of business, entered into various transactions. There were no related party transactions with directors or entities in which the directors have a material interest.

	2020 Rm	2019 Rm
Related party balances		
Net indebtedness due by / (to) subsidiaries		
Aveng Africa Proprietary Limited	**(64)**	(270)
Aveng Intellectual Properties Proprietary Limited	**(1)**	(1)
Aveng Australia Holdings Proprietary Limited*	**1 044**	852
Aveng Limited Share Purchase Trust	**(74)**	(73)
	905	508
Related party transactions		
Finance earnings		
Aveng Africa Proprietary Limited	**-**	20
Aveng Australia Holdings Proprietary Limited	**191**	79
	191	99

* *On 1 October 2018 a bi-furcation of the loan between the Company and Aveng Australia Holdings Proprietary Limited took place following the interest waiver and remeasurement in terms of IFRS 9. Consequently, R717 million has been transferred to the investment. The legally enforceable loan agreement between the two parties remains unchanged and still represents the full loan value of R1,7 billion.*

Notes to the separate annual financial statements continued

for the year ended 30 June 2020

19. CHANGES IN LIABILITIES ARISING FROM FINANCING

	Opening balance Rm	Net cash flow movement Rm	Other non-cash movements Rm	Closing balance Rm
2020				
There are no changes in liabilities arising from financing activities in the current year.				
2019				
Interest bearings loans and borrowings (including finance lease liabilities excluding the convertible bond liability)	820	-	(820)	-
Convertible bond liability *	1 929	(2 031)	102	-
	2 749	(2 031)	(718)	-

20. RISK MANAGEMENT

The Company is exposed to credit, liquidity and interest rate risks. In order to manage these risks, the Company may enter into transactions which make use of the financial instruments. The Company has developed a risk management process to facilitate, control and monitor these risks. This process includes formal documentation of policies, including limits, controls and reporting structures.

The Company actively monitors the following risks:

20.1 Capital risk management

The primary objective of the Company's capital management policy is to ensure that the Company maintains a strong credit rating and healthy capital ratios in order to support its business.

The Company manages its capital structure and makes adjustments to it in response to changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 30 June 2019 and 30 June 2020.

The Company includes within its net cash position, cash and bank balances less borrowings and other liabilities.

Capital includes equity attributable to the equity-holders of the company of R3 930 million (2019: R3 734 million).

20.2 Liquidity risk

The Company has assessed the liquidity risk as high. The Company remains confident that available cash resources, facilities and operating cash flows will be sufficient to meet its funding requirements. There have been no breaches or defaults on any payables or borrowings during the period.

Notes to the separate annual financial statements continued

for the year ended 30 June 2020

20. RISK MANAGEMENT continued

20.3 Interest rate risk

The Company does not have exposure to interest rate risk as all external debt has been ceded and delegated to Aveng Africa (Pty) Ltd. The Company's policy is to manage interest rate risk through both fixed and variable, long and short instruments.

Cash balances all carry interest at rates that vary in response to prevailing market rates in the respective geographical areas of the Company's operations.

No financial instruments are entered into to mitigate the risk of interest rates.

For the year ended 30 June 2020, the Company managed the interest rate risk through both fixed and variable, long and short-term instruments.

20.4 Credit risk

The Company's only material exposure to credit risk is in its cash balances (refer to *note 3*: Cash and bank balances) and amounts due from subsidiaries (refer to *note 2: Amounts owing by/(to) subsidiaries*). The maximum exposure to credit risk is set out in the cash and bank balance notes. There was no collateral held on the above balances as at the 2020-year end. There was no impairment in the current year or prior year.

Deposits and cash balances are all kept at financial institutions with a high credit rating, as determined by credit rating agencies within a credit limit policy which is subject to regular review.

20.5 Borrowing capacity

The Company's borrowings capacity is unlimited in terms of the Company's memorandum of incorporation. The Company does not have any undrawn facilities.

20.6 Maturity profile of financial instruments

The maturity profile of the recognised financial instruments are summarised below. These profiles represent the undiscounted cash flows that are expected to occur in the future.

Financial liabilities	Less than one year Rm	One to five years Rm	Beyond five years Rm	Total Rm
2020				
Non-derivative financial liabilities				
Amounts owing to subsidiaries	**1 570**	**-**	**-**	**1 570**
Trade and other payables	**13**	**-**	**-**	**13**
	1 583	**-**	**-**	**1 583**
2019				
Non-derivative financial liabilities				
Amounts owing to subsidiaries	77	-	-	77
Trade and other payables	11	-	-	11
	88	-	-	88

21. EVENTS AFTER THE REPORTING PERIOD

21.1 Capitalisation of the Aveng Africa (Pty) Ltd loan balance

Aveng Africa (Pty) Ltd, a subsidiary of Aveng Limited owes an amount of R1,4 billion to Aveng Limited. After year end, the directors agreed to the capitalisation of an amount of R620 million owing by the subsidiary to Aveng Limited. Aveng Limited will still hold all the issued ordinary shares in Aveng Africa.

Apart from the item discussed above, the directors are not aware of any matter or circumstance arising since the end of the reporting period not otherwise dealt with in the consolidated financial statements of Aveng Limited (Refer to *note 49: Events after the reporting period in consolidated statements*) which significantly affects the financial position of the Company as at 30 June 2020 or the results of its operations or cash flow for the year then ended.

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