

Salient features – financial performance

for the year ended 30 June 2018

> Revenue

R30,6 billion

Increase mainly due to increased activity in McConnell Dowell and signs of improvement in commodities benefiting Moolmans

> Impairment of non-core assets

R2,3 billion

Strategic review resulted in a change in the measurement criteria and adjustment to non-core asset values

> Net operating loss

R401 million

Decrease from R5,4 billion loss at June 2017

> Loss per share

653,9 cents

Decrease from 1 245,1 cents at June 2017

> Headline loss

R1 679 million

Decrease from R6,4 billion at June 2017

> Headline loss per share

311,6 cents

Decrease from 1 197,0 cents at June 2017

> Operating free cash flow

R34 million outflow

Improvement from R308 million outflow at June 2017

> Two-year order book

R17,9 billion

Deterioration from R25,1 billion at December 2017

Salient features – segmental analysis

for the year ended 30 June 2018

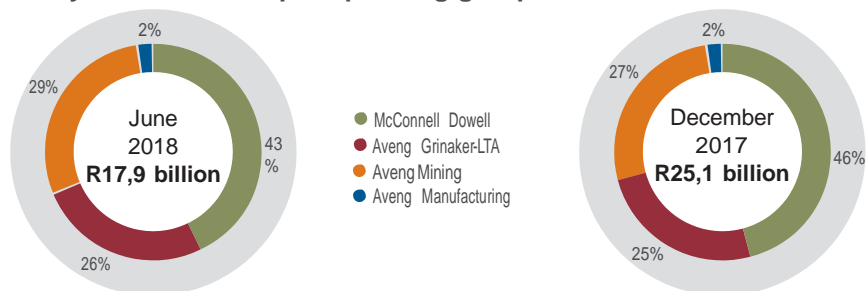
Net operating (loss) – segmental analysis

	FY2018 Rm	FY2017 Rm	Change %
South Africa and rest of Africa	(367)	(392)	6
Aveng Grinaker-LTA	(350)	(399)	12
Aveng Capital Partners	(17)	7	>(100)
Australasia and Asia	103	(4 370)	>100
Total Construction and Engineering	(264)	(4 762)	94
Mining	11	219	(95)
Manufacturing and Processing	(167)	(3)	>(100)
Aveng Steel	29	50	(42)
Aveng Manufacturing	(196)	(53)	>(100)
Other and Eliminations	19	(849)	100
Net operating (loss)/earnings	(401)	(5 395)	93
Loss attributable to equity-holders of the parent	(3 523)	(6 708)	50
Headline loss	(1 679)	(6 449)	74

Revenue per operating group



Two-year order book per operating group



Summarised statement of financial position

as at 30 June 2018

	Notes	2018 Rm	2017 Rm
ASSETS			
Non-current assets			
Goodwill arising on consolidation		100	342
Intangible assets		47	271
Property, plant and equipment		3 010	4 611
Equity-accounted investments		73	334
Infrastructure investments		142	265
Deferred taxation	8	747	1 290
Amounts due from contract customers	9	661	756
		4 780	7 869
Current assets			
Inventories		255	2 085
Derivative instruments		3	2
Amounts due from contract customers	9	2 649	3 712
Trade and other receivables		180	1 840
Taxation receivable		39	61
Cash and bank balances		2 391	1 996
		5 517	9 696
Assets Held for Sale	10	4 773	122
TOTAL ASSETS		15 070	17 687
EQUITY AND LIABILITIES			
Equity			
Share capital and share premium		2 009	2 009
Other reserves		1 118	1 060
Retained earnings		(542)	2 981
Equity attributable to equity-holders of parent		2 585	6 050
Non-controlling interest		9	8
TOTAL EQUITY		2 594	6 058
Liabilities			
Non-current liabilities			
Deferred taxation	8	49	319
Borrowings and other liabilities	11	2 688	1 945
Payables other than contract-related		125	133
Employee-related payables		248	312
		3 110	2 709
Current liabilities			
Amounts due to contract customers	9	1 140	1 351
Borrowings and other liabilities	11	599	1 121
Payables other than contract-related		21	21
Employee-related payables		253	501
Derivative instruments		-	17
Trade and other payables		2 958	5 909
Bank overdrafts		315	-
		5 286	8 920
Liabilities Held for Sale	10	4 080	-
TOTAL LIABILITIES		12 476	11 629
TOTAL EQUITY AND LIABILITIES		15 070	17 687



Summarised statement of comprehensive earnings

for the year ended 30 June 2018

	Notes	2018 Rm	2017 Rm
Revenue		30 580	23 456
Cost of sales		(28 782)	(26 591)
Gross earnings / (loss)		1 798	(3 135)
Other earnings		106	206
Operating expenses		(2 292)	(2 305)
(Loss)/ earnings from equity-accounted investments		(13)	4
Operating loss		(401)	(5 230)
South African government settlement		–	(165)
Net operating loss		(401)	(5 395)
Impairment loss on goodwill, intangible assets and property, plant and equipment	6	(1 298)	(278)
Impairment loss on equity-accounted investments		(195)	–
Fair value adjustment on properties and disposal groups classified as Held for Sale	10	(807)	–
Profit on sale of property, plant and equipment		47	4
Loss before financing transactions		(2 654)	(5 669)
Interest received on bank balances		246	198
Interest on convertible bonds	11	(251)	(237)
Other finance expenses		(434)	(405)
Loss before taxation		(3 093)	(6 113)
Taxation	12	(426)	(626)
Loss for the period		(3 519)	(6 739)
Loss from continuing operations		(1 050)	(6 238)
Loss from discontinued operations	4	(2 469)	(501)

	Notes	2018 Rm	2017 Rm
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		48	(773)
Other comprehensive earnings / (loss) for the period, net of taxation		48	(773)
Total comprehensive loss for the period		(3 471)	(7 512)
Total comprehensive loss from continuing operations		(1 002)	(7 011)
Total comprehensive loss from discontinued operations	4	(2 469)	(501)
Total comprehensive loss for the period attributable to:			
Equity-holders of the parent		(3 473)	(7 481)
Non-controlling interest		2	(31)
		(3 471)	(7 512)
Loss for the period attributable to:			
Equity-holders of the parent		(3 523)	(6 708)
Non-controlling interest		4	(31)
		(3 519)	(6 739)
Other comprehensive earnings/(loss) for the period, net of taxation			
Equity-holders of the parent		50	(773)
Non-controlling interest		(2)	–
		48	(773)
Results per share (cents)			
From continuing and discontinued operations			
Loss – basic		(653,9)	(1 245,1)
Loss – diluted		(642,9)	(1 233,1)
From continuing operations			
Loss – basic		(195,6)	(1 152,1)
Loss – diluted		(192,4)	(1 141,0)
From discontinued operations			
Loss – basic		(458,3)	(93,0)
Loss – diluted		(450,6)	(92,1)
Number of shares (millions)			
In issue		416,7	416,7
Weighted average		538,8	538,8
Diluted weighted average		548,0	544,0

EBITDA for the Group, being net operating earnings before interest, tax, depreciation and amortisation is R293 million (June 2017: R(4 740) million).



Summarised statement of changes in equity

for the year ended 30 June 2018

	Share capital Rm	Share premium Rm	Total share capital and premium Rm	Foreign currency translation reserve Rm
Balance at 1 July 2016	20 1 534	1 989	2	009
Loss for the period	-	-	-	-
Other comprehensive loss for the period (net of taxation)	-	-	-	(773)
Total comprehensive loss the period	-	-	-	(773) Equity-
settled share-based payment charge	-	-	-	- Decrease in
equity investment	-	-	-	-
Dividends paid	-	-	-	-
Total contributions and distributions recognised	-	-	-	-
Balance at 1 July 2017	20	1 989	2 009	761
Loss for the period	-	-	-	-
Other comprehensive earnings for the period (net of taxation)	-	-	-	50
Total comprehensive loss for the period	-	-	-	50
Equity-settled share-based payment charge	-	-	-	-
Dividends paid	-	-	-	-
Total contribution and distributions recognised	-	-	-	-
Balance at 30 June 2018	20	1 989	2 009	811

Equity-settled share-based payment reserve Rm	Convertible bond equity reserve Rm	Total other reserves Rm	Retained earnings Rm	Total attributable to equity-holders of the parent Rm	Non-controlling interest Rm	Total equity Rm
19	268	1 821	9 689	13 519	37	13 556
-	-	-	(6 708)	(6 708)	(31)	(6 739)
-	-	(773)	-	(773)	-	(773)
-	-	(773)	(6 708)	(7 481)	(31)	(7 512)
12	-	12	-	12	-	12
-	-	-	-	-	5	5
-	-	-	-	-	(3)	(3)
12	-	12	-	12	2	14
31	268	1 060	2 981	6 050	8	6 058
-	-	-	(3 523)	(3 523)	4	(3 519)
-	-	50	-	50	(2)	48
-	-	50	(3 523)	(3 473)	2	(3 471)
8	-	8	-	8	-	8
-	-	-	-	-	(1)	(1)
8	-	8	-	8	(1)	7
39	268	1 118	(542)	2 585	9	2 594



Summarised statement of cash flows

for the year ended 30 June 2018

	Notes	2018 Rm	2017 Rm
Operating activities			
Cash utilised from operations		(2 648)	(5 681)
Non-cash and other movements	13	2 177	4 490
Cash utilised from operations after non-cash movements			
		(471)	(1 191)
Depreciation		666	627
Amortisation		28	28
Cash generated / (utilised) by operations			
		223	(536)
Changes in working capital:			
Decrease in inventories		1 847	163
Decrease in amounts due from contract customers		1 158	27
Decrease in trade and other receivables		1 660	198
(Decrease) / increase in amounts due to contract customers		(211)	29
(Decrease) / increase in trade and other payables		(2 959)	28
(Decrease) / increase in derivative instruments		(18)	8
(Decrease) / increase in payables other than contract-related		(21)	144
Decrease in employee-related payables		(340)	(79)
Increase in net assets and liabilities classified as Held for Sale		(526)	(106)
Total changes in working capital			
		590	412
Cash generated / (utilised) by operating activities			
		813	(124)
Finance expenses paid		(532)	(531)
Finance earnings received		244	215
Taxation paid		(95)	(182)
Cash inflow/(outflow) from operating activities			
		430	(622)
Investing activities			
Acquisition of property, plant and equipment – expansion		(138)	(135)
Acquisition of property, plant and equipment – replacement		(625)	(793)
Proceeds on disposal of property, plant and equipment		291	315
Proceeds on disposal of other assets		–	104
Proceeds on disposal of ACP assets		–	821
Net proceeds on disposal of Steeledale assets		–	50
Acquisition of intangible assets – replacement		(23)	(27)
Capital expenditure net of proceeds on disposal			
		(495)	335

	2018 Rm	2017 Rm
Net loans repaid by / (advanced to) equity-accounted investments net of dividends received	18	(27)
Increase in equity-accounted investments	-	(11)
Net loans repaid by infrastructure investment companies	6	9
Dividend received	7	8
Cash (outflow) / inflow from investing activities	(464)	314
Operating free cash outflow	(34)	(308)
Loans advanced by non-controlling interest	-	5
Dividends paid	(1)	(3)
Net proceeds / (repayment of) from borrowings	134	(25)
Cash inflow / (outflow) from financing activities	133	(23)
Net increase / (decrease) in cash and bank balances before foreign exchange movements	99	(331)
Foreign exchange movements on cash and bank balances	(19)	(123)
Cash and bank balances at the beginning of the period	1 996	2 450
Total cash and bank balances at the end of the period	2 076	1 996
Borrowings excluding bank overdrafts	3 287	3 066
Net debt position	(1 211)	(1 070)



Summarised accounting policies

for the year ended 30 June 2018

1. CORPORATE INFORMATION

The summarised audited consolidated financial statements (“results”) of Aveng Limited (the “Company”) and its subsidiaries (the “Group”) for the period ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 25 September 2018.

Nature of business

Aveng Limited is a limited liability company incorporated and domiciled in the Republic of South Africa whose shares are publicly traded. The Group operates in the construction, engineering and mining environments and as a result the revenue is not seasonal in nature, but is influenced by the nature and execution of the contracts currently in progress.

2. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of preparation

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

These summarised audited consolidated financial statements are presented in South African Rand (“ZAR”) and all values are rounded to the nearest million (“Rm”) except where otherwise indicated. The summarised audited consolidated financial statements are prepared in accordance with IAS 34 *Interim Financial Statements* and the Listings Requirements of the Johannesburg Stock Exchange Limited (“JSE”). The accounting policies adopted are consistent with those of the previous year as well as the Group’s interim results as at 31 December 2017, except as disclosed in *note 4: Standards and interpretations effective and not yet effective* of the Group’s audited consolidated financial statements.

The summarised audited consolidated financial results do not include all the information and disclosures required in the consolidated financial statements, and should be read in conjunction with the Group’s audited consolidated financial statements as at 30 June 2018 that are available on the Company’s website, www.aveng.co.za.

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

The summarised audited consolidated financial statements have been audited by Ernst & Young Incorporated and the unqualified audit opinion is available on request from the company secretary at the Company’s registered office.

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

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

3. GOING CONCERN AND LIQUIDITY

As detailed in *note 2: Presentation of Consolidated Financial Statements* and *note 15: Events after the reporting period and pending transactions* to the financial statements, in determining the appropriate basis of preparation of the financial statements, the Board is required to consider whether the Company can continue in operational existence for the foreseeable future.

Management has prepared a budget and business plan for the 2019 financial year and the following two years, as well as 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 independent external advisers to ensure that they have been accurately compiled using appropriate assumptions. The budgets, plans and forecasts have, together with the assumptions used, been interrogated and approved by the Board. These forecasts and plans, being implemented by management, indicate that the Group will have sufficient cash resources for the foreseeable future. In approving the operational and liquidity forecasts, the Board has considered the following information up to the date of approval of these financial statements:

- uu Strategy adopted by the Board and announced on 26 February 2018;
- uu Successful R493 million rights issue concluded on 4 July 2018;
- uu Early redemption of the R2 billion convertible bond, including the successful raising of a new R460 million debt instrument to facilitate the settlement of R657 million of existing convertible bonds at a 30% discount ahead of the early redemption. The remaining R1,4 billion bonds were settled through the specific issue of ordinary shares at R0,10 per share on 25 September 2018;
- uu Implementation of a revised Common Terms Agreement with the South African lending banks that includes renewed facilities, additional funding of R400 million and extended funding terms to 2020;
- uu Updated non-core asset disposal plan, including the announced property disposals of R254 million;
- uu Updated budget and business plans for the post year end period up to 31 December 2019 for the Group, incorporating the benefits already realised from the strategic action plan such as improved operating performance, greater predictability of performance and working capital enhancements, as well as future benefits to liquidity to be achieved once non-core businesses have been disposed;
- uu Sensitivity testing of key inputs included in the operating and liquidity budgets to ascertain the effect of non-achievement of one or all of the key inputs (operational performance, 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; and
- uu A short-term liquidity forecast management process that has been introduced and embedded in all the South African operations with the help of external consultants.



Summarised accounting policies continued for the year ended 30 June 2018

3. GOING CONCERN AND LIQUIDITY continued

In the 2018 financial year, the Group reported a loss after tax of R3,5 billion due to R2,3 billion impairments and losses incurred of R1,2 billion. As a result of these losses and continued difficult trading conditions in the wider industry, 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, implemented or are in progress.

The Group has cash (net of bank overdraft facilities) of R2,1 billion (2017: R2,0 billion) at year end, R568 million (2017: R625 million) of which is held in joint arrangements. Advance payments that will be used in the short term amount to R85 million (2017: R146 million) while short-term debt repayments (excluding finance lease liabilities) are R255 million (2017: R704 million). After working capital requirements of R800 million (2017: R800 million) and unutilised facilities of R536 million (2017: R1,4 billion), the short-term liquidity of the Group is considered to be satisfactory to the Board with liquidity headroom of R904 million. This position is further enhanced after the conclusion of the capital markets transactions detailed in *note 15: Events after the reporting period and pending transactions*.

A revised Common Terms Agreement has been concluded with the South African lending banks. Through this process the Group negotiated renewed facilities, obtained additional funding to improve the liquidity position and extended the funding terms to 2020. The Board believes that the support from the South African lending banks, together with the R493 million capital injection following the rights issue and the early redemption of the convertible bonds that will substantially alleviate the interest burden for the Group will provide adequate financial resources to enable the Group to meet its obligations over the next 12 months and beyond.

The directors have considered all of the above, including detailed consideration of 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.

4. DISCONTINUED OPERATIONS

Identification and classification of discontinued operations

During the financial year, 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 findings included the reshaping of the Group's operating structure to a smaller and more focused group. The newly envisaged Group structure comprises McConnell Dowell and Aveng Mining forming the core businesses, with Aveng Grinaker-LTA, Aveng Manufacturing and Aveng Trident Steel being deemed the non-core operating groups. As at 30 June 2018, management was committed to exit and dispose of the identified non-core operating groups.

Aveng Grinaker-LTA, forming part of the *Construction and Engineering: South Africa and rest of Africa* reportable segment (refer to *note 5: Segmental report*) and Aveng Manufacturing and Aveng Trident Steel, both forming part of the *Manufacturing and Processing* reportable segment (refer to *note 5: 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 impairment assessment on the underlying assets allocated to the identified cash-generating units of the operating groups – refer to *note 6: Impairments*.

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 10: Assets and liabilities classified as Held for Sale*.



Summarised accounting policies continued

for the year ended 30 June 2018

4. DISCONTINUED OPERATIONS continued

Identification and classification of discontinued operations

The loss from discontinued operations is analysed as follows:

	2018 Rm	2017 Rm
Revenue	13 975	13 812
Cost of sales	(13 659)	(13 287)
Gross earnings	316	525
Other earnings	113	168
Operating expenses	(966)	(1 084)
Earnings/(loss) from equity-accounted investments	3	(4)
Operating loss	(534)	(395)
Impairment loss on goodwill, intangible assets and property, plant and equipment	(1 132)	(240)
Impairment loss on equity-accounted investments	(7)	–
Fair value adjustments on properties and disposal groups classified as Held for Sale	(734)	–
Profit on sale of property, plant and equipment	12	3
Loss before financing transactions	(2 395)	(632)
Net finance expenses	(89)	(32)
Loss before taxation	(2 484)	(664)
Taxation	15	163
Loss for the period	(2 469)	(501)
Attributable to:		
Equity-holders of the parent	(2 469)	(501)
Other comprehensive earnings for the period, net of taxation	–	–
Total comprehensive loss for the period	(2 469)	(501)
Items by nature		
Capital expenditure	138	222
Depreciation	(132)	(171)
Amortisation	(8)	(13)
Loss before interest, taxation, depreciation and amortisation (EBITDA)	(394)	(211)
Results per share (cents)		
Loss – basic	(458,3)	(93,0)
Loss – diluted	(450,6)	(92,1)
Net cash flows in relation to discontinued operations:		
Cash outflow from operating activities	(4)	(886)
Cash (outflow) / inflow from investing activities	(93)	670
Cash inflow from financing activities	17	5

5. 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 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 4: Discontinued operations*, 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 operations in the disclosure of the segmental statement of comprehensive earnings and segmental statement of financial position.



5. SEGMENTAL REPORT continued

Details on the reportable segments are as follows:

5.1 Continuing operations

5.1.1 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, Southeast Asia and Middle East.

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.

5.1.2 Mining

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

5.1.3 Other and Eliminations

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

Included in the segment are several properties that are classified as Held for Sale – refer to *note 10: Assets and liabilities classified as Held for Sale*. As these properties are separately identifiable assets, the segment remains a continuing operation.

5. SEGMENTAL REPORT continued

5.2 Discontinued operations

5.2.1 *Construction and Engineering: South Africa and rest of Africa*

This segment includes: Aveng Grinaker-LTA and Aveng Capital Partners (“ACP”). Aveng Grinaker-LTA is divided into the following business units: Aveng Grinaker-LTA Building and Coastal, Aveng Grinaker-LTA Civil Engineering (including Rand Roads and GEL), Aveng Grinaker-LTA 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.

5.2.2 *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 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.

Aveng Trident Steel is the only business unit in Aveng Steel.



Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

5. SEGMENTAL REPORT continued

Statement of financial position

CONTINUING OPERATIONS

	Construction and Engineering: Australasia and Asia			Mining			Other and Eliminations		
	2018	2017	%	2018	2017	%	2018	2017	%
Assets									
Goodwill arising on consolidation	100	100	-	-	-	-	-	232	(100,0)
Intangible assets	-	-	-	24	28	(14,3)	23	148	(84,5)
Property, plant and equipment	409	602	(32,1)	2 598	2 539	2,3	3	306	(99,0)
Equity-accounted investments	31	52	(40,4)	1	4	(75,0)	16	319	(95,0)
Infrastructure investments	-	-	-	-	-	-	142	142	-
Deferred taxation	644	551	16,9	14	47	(70,2)	8	530	(98,5)
Derivative instruments	-	-	-	3	2	50,0	-	-	-
Amounts due from contract customers	2 838	3 029	(6,3)	518	764	(32,2)	(46)	(287)	84,0
Inventories	20	9	>100,0	235	211	11,4	-	-	-
Trade and other receivables	58	86	(32,6)	66	93	(29,0)	56	136	(58,8)
Taxation receivable	20	10	100,0	7	25	(72,0)	2	15	(86,7)
Cash and bank balances	1 443	1 237	16,7	286	410	(30,2)	(336)	(393)	14,5
Assets Held for Sale	99	-	100,0	-	-	-	224	118	89,8
Total assets	5 662	5 676	(0,2)	3 752	4 123	(9,0)	92	1 266	(92,7)
Liabilities									
Deferred taxation	90	-	100,0	264	184	43,5	(382)	133	>(100,0)
Borrowings and other liabilities	204	921	(77,9)	200	317	(36,9)	2 883	1 824	58,1
Payables other than contract-related	-	-	-	-	-	-	146	154	(5,2)
Employee-related payables	320	298	7,4	116	187	(38,0)	65	80	(18,8)
Derivative instruments	-	-	-	-	-	-	-	-	-
Trade and other payables	1 999	2 304	(13,2)	638	677	(5,8)	296	205	44,4
Amounts due to contract customers	1 098	854	28,6	42	85	(50,6)	-	17	(100,0)
Bank overdrafts	-	-	-	-	-	-	315	-	100,0
Liabilities Held for Sale	-	-	-	-	-	-	-	-	-
Total liabilities	3 711	4 377	(15,2)	1 260	1 450	(13,1)	3 323	2 413	37,7

DISCONTINUED OPERATIONS

2018	Total		Construction and Engineering: South Africa and rest of Africa			Manufacturing and Processing			Total		
	2017	%	2018	2017	%	2018	2017	%	2018	2017	%
100	332	(69,9)	-	-	-	-	10	(100,0)	-	10	(100,0)
47	176	(73,3)	-	-	-	-	95	(100,0)	-	95	(100,0)
3 010	3 447	(12,7)	-	398	(100,0)	-	766	(100,0)	-	1 164	(100,0)
48	375	(87,2)	25	(40)	>100,0	-	(1)	100,0	25	(41)	>100,0
142	142	-	-	123	(100,0)	-	-	-	-	123	(100,0)
666	1 128	(41,0)	78	143	(45,5)	3	19	(84,2)	81	162	(50,0)
3	2	50,0	-	-	-	-	-	-	-	-	-
3 310	3 506	(5,6)	-	876	(100,0)	-	86	(100,0)	-	962	(100,0)
255	220	15,9	-	40	(100,0)	-	1 825	(100,0)	-	1 865	(100,0)
180	315	(42,9)	-	112	(100,0)	-	1 413	(100,0)	-	1 525	(100,0)
29	50	(42,0)	1	12	(91,7)	9	(1)	>100,0	10	11	(9,1)
1 393	1 254	11,1	474	237	100,0	524	505	3,8	998	742	34,5
323	118	>100,0	1 201	4	>100,0	3 249	-	100,0	4 450	4	>100,0
9 506	11 065	(14,1)	1 779	1 905	(6,6)	3 785	4 717	(19,8)	5 564	6 622	(16,0)
(28)	317	>(100,0)	13	-	100,0	64	2	>100,0	77	2	>100,0
3 287	3 062	7,3	-	-	-	-	4	(100,0)	-	4	(100,0)
146	154	(5,2)	-	-	-	-	-	-	-	-	-
501	565	(11,3)	-	173	(100,0)	-	75	(100,0)	-	248	(100,0)
-	-	-	-	-	-	-	17	(100,0)	-	17	(100,0)
2 933	3 186	(7,9)	25	966	(97,4)	-	1 757	(100,0)	25	2 723	(99,1)
1 140	956	19,2	-	394	(100,0)	-	1	(100,0)	-	395	(100,0)
315	-	100,0	-	-	-	-	-	-	-	-	-
-	-	-	1 605	-	100,0	2 475	-	100,0	4 080	-	100,0
8 294	8 240	0,7	1 643	1 533	7,2	2 539	1 856	36,8	4 182	3 389	23,4



Notes to the summarised consolidated financial statements *continued*

for the year ended 30 June 2018

5. **SEGMENTAL REPORT** *continued***Statement of comprehensive earnings****CONTINUING OPERATIONS**

	Construction and Engineering: Australasia and Asia			Mining			Other and Eliminations		
	2018	2017	%	2018	2017	%	2018	2017	%
	Revenue	11 716	6 183	89,5	4 713	4 184	12,6	176	(723)
Cost of sales	(10 788)	(9 767)	(10,5)	(4 452)	(3 774)	(18,0)	117	237	(50,6)
Gross earnings / (loss)	928	(3 584)	>100,0	261	410	(36,3)	293	(486)	>100,0
Other earnings / (loss)	7	9	(22,2)	(23)	6	>(100,0)	9	23	(61,6)
Operating expenses	(827)	(810)	(2,1)	(227)	(197)	(15,1)	(272)	(214)	(27,1)
(Loss)/earnings from equity-accounted investments	(5)	15	>(100,0)	-	-	-	(11)	(7)	(57,1)
Operating (loss) / profit	103	(4 370)	>100,0	11	219	(94,9)	19	(684)	>100,0
South African government settlement	-	-	-	-	-	-	-	(165)	100,0
Net operating (loss) / earnings	103	(4 370)	>100,0	11	219	(94,9)	19	(849)	>100,0
Impairment loss on goodwill, intangible assets and property, plant and equipment	-	-	-	(55)	1	>(100,0)	(111)	(39)	>(100,0)
Impairment loss on equity-accounted investments	-	-	-	-	-	-	(188)	-	(100,0)
Fair value adjustments on properties and disposal groups classified as Held for Sale	-	-	-	-	-	-	(73)	-	(100,0)
Profit on sale of property, plant and equipment	32	-	100,0	-	-	-	3	1	>100,0
(Loss)/profit before financing transactions	135	(4 370)	>100,0	(44)	220	>(100,0)	(350)	(887)	60,5
Net finance expenses	(220)	(179)	(22,9)	(63)	(20)	>(100,0)	(67)	(213)	68,5
(Loss) / earnings before taxation	(85)	(4 549)	98,1	(107)	200	>(100,0)	(417)	(1 100)	62,1
Taxation	(36)	(209)	82,8	(116)	(90)	(28,9)	(289)	(490)	41,0
Loss for the period	(121)	(4 758)	97,5	(223)	110	>(100,0)	(706)	(1 590)	55,6
Capital expenditure	136	168	(19,0)	507	557	(9,0)	5	8	(37,5)
Depreciation	(132)	(175)	24,6	(394)	(269)	(46,5)	(8)	(11)	27,3
Amortisation	-	-	-	(4)	(1)	>(100,0)	(16)	(15)	(6,7)
(Loss) / earnings before interest, taxation, depreciation and amortisation (EBITDA)	235	(4 195)	>100,0	409	489	(16,4)	43	(823)	>100,0

DISCONTINUED OPERATIONS

2018	Total		Construction and Engineering: South Africa and rest of Africa			Manufacturing and Processing			Total		
	2017	%	2018	2017	%	2018	2017	%	2018	2017	%
16 605 (15 123)	9 644 (13 304)	72,2 (13,7)	6 622 (6 660)	5 876 (5 843)	12,7 (14,0)	7 353 (6 999)	7 936 (7 444)	(7,3) 6,0	13 975 (13 659)	13 812 (13 287)	1,2 (2,8)
1 482 (7) (1 326)	(3 660) 38 (1 221)	>100,0 >(100,0) (8,6)	(38) 21 (353)	33 60 (481)	>(100,0) (65,0) 26,5	354 92 (613)	492 108 (603)	(28,0) (14,8) (1,7)	316 113 (966)	525 168 (1 084)	(39,8) (32,7) 10,9
(16)	8	>(100,0)	3	(4)	>100,0	-	-	-	3	(4)	>100,0
133	(4 835)	>100,0	(367)	(392)	6,3	(167)	(3)	>(100,0)	(534)	(395)	(35,3)
-	(165)	100,0	-	-	-	-	-	-	-	-	-
133	(5 000)	>100,0	(367)	(392)	6,3	(167)	(3)	>(100,0)	(534)	(395)	(35,3)
(166)	(38)	>(100,0)	(82)	33	>(100,0)	(1 050)	(273)	>(100,0)	(1 132)	(240)	>(100,0)
(188)	-	(100,0)	(7)	-	(100,0)	-	-	-	(7)	-	(100,0)
(73)	-	(100,0)	-	-	-	(734)	-	(100,0)	(734)	-	(100,0)
35	1	>100,0	11	-	100,0	1	3	(66,7)	12	3	>100,0
(259) (350)	(5 037) (412)	94,9 15,0	(445) (12)	(359) 14	(24,0) >(100,0)	(1 950) (77)	(273) (46)	>(100,0) (67,4)	(2 395) (89)	(632) (32)	>(100,0) >(100,0)
(609) (441)	(5 449) (789)	88,8 44,1	(457) (37)	(345) 93	(32,5) >(100,0)	(2 027) 52	(319) 70	>(100,0) (25,7)	(2 484) 15	(664) 163	>(100,0) (90,8)
(1 050)	(6 238)	83,2	(494)	(252)	(96,0)	(1 975)	(249)	>(100,0)	(2 469)	(501)	>(100,0)
648 (534) (20)	733 (455) (16)	(11,6) (17,4) (25,0)	49 (62) -	80 (69) -	(38,8) 10,1 -	89 (70) (8)	142 (102) (13)	(37,3) 31,4 38,5	138 (132) (8)	222 (171) (13)	(37,8) 22,8 38,5
687	(4 529)	>100,0	(305)	(323)	5,6	(89)	112	>(100,0)	(394)	(211)	(86,7)



Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

5. SEGMENTAL REPORT continued

The Group operates in six principal geographical areas:

	2018 Revenue Rm	2017 Revenue Rm	2018 Segment assets Rm	2017 Segment assets Rm	2018 Capital expen- diture Rm	2017 Capital expen- diture Rm
South Africa	16 754	15 281	9 349	11 172	554	684
Rest of Africa including Mauritius	1 910	1 717	1 071	1 157	95	102
Australia	6 817	1 193	2 148	2 751	59	94
New Zealand	1 734	2 580	469	798	25	25
Southeast Asia	2 602	2 427	1 833	1 631	52	49
Middle East and other regions	763	258	200	178	1	1
	30 580	23 456	15 070	17 687	786	955

6. IMPAIRMENTS

The Group performed its annual impairment test at 30 June 2018. The test involves the assessment of internal and external qualitative factors for each cash-generating unit ("CGU") that may constitute an indicator of impairment. The test may extend to individual assets in instances of underutilisation, obsolescence, physical damage or material decline in the economic performance of the asset.

CGUs of the Group

As detailed in *note 4: Discontinued operations*, the Board made the decision that the operating groups of the following reportable segments no longer form part of the overall long-term strategy of the Group:

- uu *Construction and Engineering: South Africa and rest of Africa; and*
- uu *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 10: Assets and liabilities classified as Held for Sale*.

6. IMPAIRMENTS continued

The following business units were deemed to be individual CGUs on which individual impairment assessments were performed:

Construction and Engineering: South Africa and rest of Africa

- uu Aveng Water;
- uu Aveng Grinaker-LTA Building;
- uu Aveng Grinaker-LTA Coastal;
- uu Aveng Grinaker-LTA Civil Engineering;
- uu Aveng Grinaker-LTA GEL;
- uu Aveng Grinaker-LTA Mechanical and Electrical; and
- uu Aveng Grinaker-LTA Rand Roads.

Manufacturing and Processing

- uu Aveng Trident Steel;
- uu Aveng Automation and Control Solutions (“ACS”);
- uu Aveng Dynamic Fluid Control (“DFC”);
- uu Aveng Rail;
- uu Aveng Duraset; and
- uu Aveng Infraset.

Goodwill arising on consolidation

A compulsory impairment assessment of goodwill allocated to the Aveng DFC and McConnell Dowell CGUs were performed in the current year. The McConnell Dowell CGU falls under the *Construction and Engineering: Australasia and Asia* reportable segment.

Other individual assets in scope of IAS 36

The outcome of the strategic review included the intention to dispose of certain non-core properties. The intention to dispose of these properties, triggered an impairment assessment prior to classification as Held for Sale. These affected properties are accounted for in the *Other and Eliminations* reportable segment.

Centralised software systems managed at Corporate level are deemed corporate assets as defined by *IAS 36 Impairment of assets*. The components of the centralised systems attributable to the operating groups of the above mentioned discontinued reportable segments were subject to an impairment assessment. The centralised software systems are accounted for in the *Other and Eliminations* reportable segment.

An impairment assessment was performed on plant and equipment accounted for in Aveng Moolmans. Aveng Moolmans falls under the *Mining* reportable segment. The impairment assessment was triggered by the underutilisation of these assets.

Impairment charges were recognised on the Group's investments in Oakleaf Investment Holdings 86 Proprietary Limited, Steeledale Proprietary Limited and Specialised Road Technologies Proprietary Limited. The total impairment charge for the year in relation to equity-accounted investments amounted to R195 million.

Notes to the summarised consolidated financial statements *continued* for the year ended 30 June 2018

6. **IMPAIRMENTS** *continued*

Determination of the recoverable amount

CGUs of the Group and goodwill arising on consolidation

Management determined the recoverable amounts of all CGUs within the *Construction and Engineering: South Africa and rest of Africa* and *Manufacturing and Processing* segments to be the fair value less cost of disposal.

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:

- uu The Enterprise Value EBITDA multiple method ("EV / EBITDA Multiple") (Market approach per *IFRS 13 Fair Value Measurement*); and
- uu 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, best estimates and the assistance of an independent consultant. The cash flows incorporated in the valuation models were based on the approved budgets for the 2019 financial year, as well as the forecasts until 2021, utilising the following assumptions:

uu *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 range of the multiples applied in the CGU impairment assessments was between 1,2x and 4,8x.

uu *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 17,0% and 21,2%.

Terminal value exit EBITDA multiple – The terminal value is calculated by multiplying the terminal EBITDA (EBITDA as forecast for 2021) 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 2,0x and 3,6x.

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 CGU, comprise primarily 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.

6. IMPAIRMENTS 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
<i>EV/EBITDA Multiple valuation method</i>		
Risk adjusted peer average EBITDA multiples	Increase multiple by 0,5x	R31 million decrease
Risk adjusted peer average EBITDA multiples	Decrease multiple by 0,5x	R33 million increase
<i>DCF valuation method</i>		
Discount rate	Increase by 100 basis points	R5 million increase
Discount rate	Decrease by 100 basis points	R3 million decrease
Terminal value exit EBITDA multiple	Increase multiple by 0,5x	R17 million decrease
Terminal value exit EBITDA multiple	Decrease multiple by 0,5x	R17 million increase

Other individual assets in scope of IAS 36

The recoverable amounts of the properties assessed for impairment before classification as Held for Sale were determined as the fair value less cost of disposal. The fair values of the properties were based on the valuation reports compiled by an independent consultant and were based on the future rental cash inflows valuation method. The valuation method incorporates the actual location, type and quality of the properties supported by the terms of any existing lease, other contracts or current market rents for similar properties. The fair values of the properties are all level 3 per the *IFRS 13 Fair Value Measurement* hierarchy.

The recoverable amounts of all other individual assets subject to impairment assessments have been determined as zero.



Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

6. IMPAIRMENTS continued

6.1 Impairment of property, plant and equipment and intangible assets

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

	Property, plant and equipment Rm	Intangible assets Rm
<i>CGUs of the Group</i>		
Aveng Grinaker-LTA Civil Engineering	35	–
Aveng Grinaker-LTA GEL	4	–
Aveng Grinaker-LTA Rand Roads	43	–
Aveng Trident Steel	152	–
Aveng DFC	44	56
Aveng Rail	99	5
Aveng Duraset	49	23
Aveng Infraset	364	16
<i>Other individual assets in scope of IAS 36</i>		
Properties prior to classification as Held for Sale	43	–
Corporate assets – Centralised software systems	–	68
Aveng Moolmans – plant and equipment	55	–
	888	168

6.2 Impairment of goodwill arising on consolidation

The impairment assessment of the Aveng DFC CGU lead to the recognition of the following impairment loss:

	Goodwill arising on consolidation Rm
<i>CGUs of the Group</i>	
Aveng DFC	242

CGUs not impaired and not sensitive to impairment

Goodwill arising on consolidation allocated to the McConnell Dowell CGU was subject to the mandatory annual impairment assessment as required by IAS 36. 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. No goodwill impairment loss was recognised in the prior year.

6. IMPAIRMENTS continued**6.3 Impairments recognised during the year**

	2018 Rm	2017 Rm
Goodwill arising on consolidation	(242)	–
Intangible assets	(168)	(53)
Property, plant and equipment	(888)	(225)
	(1 298)	(278)

7. HEADLINE LOSS

	2018		2017	
	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		(3 523)		(6 708)
Impairment of goodwill	242	242	–	–
Impairment of property, plant and equipment	888	661	225	221
Impairment of intangible assets	168	168	53	53
Fair value adjustment on properties and disposal groups classified as Held for Sale	807	807	–	–
Gain on Steeledale transaction	–	–	(2)	(2)
Profit on sale of property, plant and equipment	(47)	(34)	(14)	(13)
Headline loss*		(1 679)		(6 449)

* Headline loss is calculated in accordance with Circular 4 / 2018.



Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

	2018 Rm	2017 Rm
8. DEFERRED TAXATION		
Reconciliation of deferred taxation asset		
At the beginning of the year	1 290	1 858
Recognised in earnings or loss – current year	(373)	(433)
Recognised in earnings or loss – adjustment for prior year	9	(38)
Effect of change in foreign tax rate	(2)	–
Foreign currency translation movement	3	(85)
Reallocation from deferred taxation liability*	(180)	(10)
Disposal of subsidiary	–	(2)
	747	1 290
Reconciliation of deferred taxation liability		
At the beginning of the year	(319)	(266)
Recognised in earnings or loss – current year	89	(77)
Recognised in earnings or loss – adjustment for prior year	–	13
Reallocation to deferred taxation asset*	180	10
Foreign currency translation movement	1	1
	(49)	(319)
Deferred taxation asset balance at the year end comprises		
Accelerated capital allowances	(205)	(229)
Provisions	136	256
Contracts	136	51
Other	(227)	44
Assessed losses carried forward	907	1 168
	747	1 290
Deferred taxation liability balance at the year end comprises		
Accelerated capital allowances	(10)	(418)
Provisions	–	17
Contracts	–	(4)
Other	(8)	(85)
Convertible bond	(32)	(62)
Assessed losses carried forward	1	233
	(49)	(319)

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

8. DEFERRED TAXATION continued

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

As at June 2018 the Group had unused taxation losses of R12 830 million (2017: R13 201 million) available for offset against future profits. A deferred taxation asset has been recognised in respect of R3 107 million (2017: R4 949 million) of such losses. No deferred taxation asset has been recognised in respect of the remaining R9 724 million (2017: R8 252 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 2019 to 2023, 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.

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



Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

	2018 Rm	2017 Rm
9. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS		
Uncertified claims and variations (underclaims)* ¹	1 646	1 760
Contract contingencies	(490)	(701)
Progress billings received (including overclaims) ²	(1 404)	(1 205)
Uncertified claims and variations less progress billings received	(248)	(146)
Contract receivables ³	2 602	3 262
Provision for contract receivables	(2)	(2)
Retention receivables ⁴	208	149
	2 560	3 263
Amounts received in advance ⁵	(85)	(146)
	2 475	3 117
Classified as Held for Sale – transferred out (net)	(305)	–
Net amounts due from contract customers	2 170	3 117
Disclosed on the statement of financial position as follows:		
Uncertified claims and variations*	1 646	1 760
Contract contingencies	(490)	(701)
Contract and retention receivables	2 810	3 411
Provision for contract receivables	(2)	(2)
Classified as Held for Sale – transferred out	(654)	–
Amounts due from contract customers	3 310	4 468
Progress billings received	(1 404)	(1 205)
Amounts received in advance	(85)	(146)
Classified as Held for Sale – transferred out	349	–
Amounts due to contract customers	(1 140)	(1 351)
Net amounts due from contract customers	2 170	3 117

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

Included in amounts due from contract customers are non-current amounts of R661 million (2017: R756 million).

Amounts due from contract customers include R942 million (2017: R908 million) which is subject to protracted legal proceedings.

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

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

³Amounts invoiced still due from customers.

⁴Retentions 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.

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

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As disclosed in *note 4: Discontinued operations*, the outcome of the strategic review lead to the Board's decision to exclude the following reportable segments from the Group's long-term strategy:

- uu *Construction and Engineering: South Africa and rest of Africa; and*
- uu *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 4: Discontinued operations* and *note 5: Segmental Report*). As the disposals are expected to occur within the next 12 months, the assets and liabilities were classified as Held for Sale. The proceeds from the disposals are expected to equal the net carrying amounts.

The assets and liabilities of the disposal groups were allocated to their cash-generating units ("CGUs") and subject to an impairment assessment prior to classification as Held for Sale. The recoverable amounts of all the CGUs were assessed as the fair values less cost of disposal (refer to *note 6: Impairments*). The carrying amounts of some of the assets in relation to the Manufacturing and Processing disposal group, exceeded their fair values less cost of disposal after being classified as Held for Sale. An adjustment was recognised to present these assets at their fair values less cost of disposal.

Individual properties accounted for under the *Other and Eliminations* reportable segment were classified as Held for Sale during the current year. The carrying amounts of some of these properties 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 6: Impairments* for further details regarding disclosures in terms of *IFRS 13 Fair Value Measurement*.

A single vessel, being a self-elevating barge used on projects in Singapore and accounted for in the *Construction and Engineering: Australasia and Asia* reportable segment, was deemed to be surplus to the operational requirements of the entity and subsequently advertised and classified as Held for Sale. Offers are being sought from interested parties via specialist brokers of marine vessels. The disposal of the asset is expected within the next 12 months. The recoverable amount of the asset has been assessed and exceeds its carrying amount.

The process relating to the disposal of the Vanderbijlpark property has extended beyond 12 months from classification as Held for Sale. A reassessment of the asset's fair value less cost of disposal was performed at year end. An external valuation was performed on the property and a fair value adjustment of R73 million was recognised in order to present and disclose the asset at its fair value less cost of disposal. The extension of the property's classification as Held for Sale beyond 12 months is supported by its disposal to an external party after year end. The valuation of the property was performed by an independent consultant and based on the future rental cash inflows valuation method. The valuation method incorporates the actual location, type and quality of the property supported by the terms of any existing lease, other contracts or current market rents for similar properties. The fair value of the property was assessed as level 3 per the *IFRS 13 Fair Value Measurement* hierarchy.



Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

	2018	2017
	Rm	Rm
Assets Held for Sale	4 773	122
Liabilities Held for Sale	(4 080)	–
	693	122
Movement during the year		
Opening balance	122	1 237
<i>Transferred from/(to):</i>		
Non-current assets	874	(39)
Current assets	3 850	(75)
Non-current liabilities	(65)	–
Current liabilities	(3 281)	181
<i>Disposals of:</i>		
Assets Held for Sale	–	(1 248)
Liabilities Held for Sale	–	66
Adjustment to fair value less cost of disposal*	(807)	–
Net assets Held for Sale	693	122

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

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

As at 30 June 2018, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs to sell and comprised of the following:

	2018						Total
	Construction and Engineering: South Africa and the rest of Africa – Disposal group Rm	Manufacturing and Processing – Disposal group Rm	Properties – Vanderbijlpark Rm	Properties – Jet Park Rm	Properties – Other Rm	Construction and Engineering: Australasia and Asia – Marine vessel Held for Sale Rm	Rm
ASSETS							
Non-current assets							
Intangible assets	–	51	–	–	–	–	51
Property, plant and equipment	282	110	43	128	53	99	715
Equity-accounted investments*	32	–	–	–	–	–	32
Infrastructure investments	125	–	–	–	–	–	125
	439	161	43	128	53	99	923
Current assets							
Inventories	44	1 746	–	–	–	–	1 790
Derivative instruments	–	6	–	–	–	–	6
Amounts due from contract customers	618	36	–	–	–	–	654
Trade and other receivables	100	1 300	–	–	–	–	1 400
	762	3 088	–	–	–	–	3 850
TOTAL ASSETS	1 201	3 249	43	128	53	99	4 773

*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 the Aveng Capital Partners investment portfolio.



Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

	2018						Total
	Construction and Engineering: South Africa and the rest of Africa – Disposal group Rm	Manufacturing and Processing – Disposal group Rm	Properties – Vanderbijlpark Rm	Properties – Jet Park Rm	Properties – Other Rm	Construction and Engineering: Australasia and Asia – Marine vessel Held for Sale Rm	Rm
LIABILITIES							
Non-current liabilities							
Borrowings and other liabilities	–	12	–	–	–	–	12
Employee-related payables	46	7	–	–	–	–	53
	46	19	–	–	–	–	65
Current liabilities							
Amounts due to contract customers	347	2	–	–	–	–	349
Borrowings and other liabilities	–	10	–	–	–	–	10
Employee-related payables	100	59	–	–	–	–	159
Trade and other payables	1 112	1 651	–	–	–	–	2 763
	1 559	1 722	–	–	–	–	3 281
Provision for unallocated fair value adjustments	–	734	–	–	–	–	734
TOTAL LIABILITIES	1 605	2 475	–	–	–	–	4 080
Net assets Held for Sale	(404)	774	43	128	53	99	693

			2018 Rm	2017 Rm
11. BORROWINGS AND OTHER LIABILITIES				
Borrowings held at amortised cost comprise				
Total borrowings as at year end			3 309	3 066
Classified as Held for Sale – transferred out			(22)	–
			3 287	3 066
Interest bearing borrowings comprise:				
Payment profile				
– within one year			599	1 121
– between two to five years			2 688	1 945
			3 287	3 066
Interest rate structure				
Fixed and variable (interest rates)				
Fixed – long-term			1 946	1 901
Fixed – short-term			305	348
Variable – long-term			742	48
Variable – short-term			294	769
			3 287	3 066
Description	Terms	Rate of interest	2018 Rm	2017 Rm
Convertible bond of R2 billion	Interest coupon is payable bi-annually until July 2019	Coupon of 7,25%	1 929	1 823
Revolving credit facility	Repayable June 2020	JIBAR plus 3,00% to 5,75%	700	–
Short-term facility of AUD10 million****	Settled September 2017	Bank bill swap rate plus 0,70%	–	101
Short-term facility of AUD60 million***	Settled September 2017	Bank bill swap rate plus 2,20%	–	603
Super senior liquidity facility	Repayable February 2019	South African Prime plus 2,50% to 5,50%	255	–
Short-term facility of AUD6 million	Repayable July 2018	Fixed interest rate of 4,63%	62	–
Term loan facility denominated in ZAR	Monthly instalments ending April 2021	Fixed interest rate of 10,58%	48	66
Finance lease facility of AUD12 million*	Monthly instalments ending November 2020	Fixed interest rate of 4,5%	118	145
Finance sale and lease back amounting to AUD2 million*	Settled December 2017	Fixed interest of 5,15% to 6,08%	–	24



Notes to the summarised consolidated financial statements *continued*

for the year ended 30 June 2018

11. BORROWINGS AND OTHER LIABILITIES *continued***11.1 Borrowings held at amortised cost** *continued*

Description	Terms	Rate of interest	2018 Rm	2017 Rm
Hire purchase agreements amounting to AUD2 million*	Monthly instalments ending November 2023	Fixed interest of 1,35% to 7%	24	42
Hire purchase agreement amounting to AUD0,5 million*	Settled August 2017	Fixed interest rate of 6,81%	-	5
Hire purchase agreement denominated in USD*	Settled September 2017	Fixed interest rate of 4,58% to 4,65%	-	44
Hire purchase agreement denominated in ZAR*	Settled December 2017	South African prime less 2,00%	-	16
Hire purchase agreement denominated in ZAR*	Settled November 2017	South African prime plus 2,00%	-	21
Hire purchase agreement denominated in ZAR*	Monthly instalments ending November 2019	South African prime less 1,70%	29	51
Hire purchase agreement denominated in ZAR*	Settled in May 2018	Fixed interest rate of 9,70%	-	24
Finance lease facility denominated in ZAR*	Monthly instalments ending December 2018	South African prime	2	4
Hire purchase facility denominated in USD*	Monthly instalments ending August 2021	Fixed interest rate of 6,68%	63	74
Finance lease facilities denominated in ZAR*	Monthly instalments ending August 2022	South African prime	19	20
Hire purchase agreement denominated in ZAR*	Monthly instalments ending August 2020	South African prime plus 0,50%	18	-
Hire purchase agreement denominated in ZAR*	Monthly instalments ending September 2018	Fixed interest rate of 12,50%	5	-
Hire purchase agreement denominated in ZAR*	Monthly instalments ending August 2020	South African prime plus 3,00%	32	-
Interest-bearing borrowings			3 304	3 063
Interest outstanding on interest-bearing borrowings**			5	3
Classified as Held for Sale – transferred out			(22)	-
Total interest-bearing borrowings			3 287	3 066

* *These borrowings and other liabilities are finance leases.*** *Interest outstanding in the current year relates to finance leases.**** *Backed by a bank guarantee.***** *Secured by cash collateral in South Africa.*

Subsequent to year end, the Group entered into two lending facility agreements (refer to *note 15: Events after reporting period and pending transactions*) comprising:

uu A revolving credit facility of R253 million repayable on 30 September 2020 with an implied interest rate of 13,99%; and

uu A term loan facility of R207 million repayable on 30 June 2020 at an interest rate of JIBAR plus 5,02%.

11. BORROWINGS AND OTHER LIABILITIES continued
11.2 Borrowings held at amortised cost continued

	2018 Rm	2017 Rm
Finance lease liabilities are payable as follows*:		
Minimum lease payments due		
– within one year	149	206
– in two to five years	191	184
Less: future finance charges	(25)	(38)
Present value of minimum lease payments	315	352

*Includes finance lease liabilities of R22 million classified as Held for Sale.

The *Construction and Engineering: Australasia and Asia* operating segment enters into asset-based finance arrangements to fund the acquisition of various items of plant and machinery.

The total asset-based finance facilities amounted to AUD21 million (2017: AUD6 million). The amount outstanding on these facilities as at year end was AUD14 million (2017: AUD3 million) and is equivalent to R142 million (2017: R31 million). These asset-based arrangements were secured by plant and equipment with a net carrying amount of R75 million (2017: R52 million).

The *Mining* operating segment entered into various asset-based finance lease agreements to purchase operating equipment denominated both in USD and ZAR. These arrangements are secured by the assets for which the funding was provided and are repayable in monthly and quarterly instalments with the final repayment to be made in August 2022. The total amount outstanding on these facilities amounted to R133 million (2017: R317 million). Equipment with a net carrying amount of R231 million (2017: R494 million) has been pledged as security for the facility.

The *Mining and Manufacturing and Processing* operating segments entered into various vehicle lease arrangements. Equipment with the net carrying amount of R20 million (2017: R3 million) has been pledged as security.



Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

11. BORROWINGS AND OTHER LIABILITIES continued

11.3 Convertible bonds

	Convertible bond liability Rm	Convertible bond equity reserve Rm	Total Rm
2018			
Opening balance	1 823	268	2 091
Coupon bi-annual payment	(145)	–	(145)
Interest determined with the effective interest rate*	251	–	251
Accrual of coupon interest for convertible bond	145	–	145
Unwinding of liability owing to:			
– Transaction costs capitalised	9	–	9
– Effect of fair value adjustment of derivative liability	8	–	8
– Effect of fair value of conversion option	89	–	89
	1 929	268	2 197
2017			
Opening balance	1 731	268	1 999
Coupon bi-annual payment	(145)	–	(145)
Interest determined with the effective interest rate*	237	–	237
Accrual of coupon interest for convertible bond	145	–	145
– Transaction costs capitalised	8	–	8
– Effect of fair value adjustment of derivative liability	6	–	6
– Effect of fair value of conversion option	78	–	78
	1 823	268	2 091

*Interest on convertible bond.

During July 2014, the Company issued convertible bonds denominated in South African Rand with a nominal value of R2 billion and a coupon of 7,25%. Interest is payable bi-annually for a period of five years with the bond repayment date being five years from issue date at par plus interest. The effective interest rate associated with the convertible bond liability is 13,6%.

Refer to *note 15: Events after the reporting period and pending transactions* for detail regarding the early redemption of the convertible bonds.

	2018 Rm	2017 Rm
12. TAXATION		
Major components of the taxation expense		
Current		
Local income taxation – current period	1	42
Local income taxation – recognised in current taxation for prior periods	(1)	21
Foreign income taxation or withholding taxation – current period	141	30
Foreign income taxation or withholding taxation – recognised in the current taxation for prior periods	9	(2)
	150	91
Deferred		
Deferred taxation – current period	283	510
Deferred taxation – arising from prior period adjustments	(9)	25
Deferred taxation – foreign tax rate change	2	–
	276	535
	426	626
	2018	2017
	%	%
Reconciliation of the taxation expense		
Effective taxation rate on earnings	(13,8)	(10,2)
Exempt income and capital profits	(0,8)	0,1
Deferred taxation asset not recognised	25,1	37,6
Disallowable charges*	17,8	1,7
Prior year adjustment	0,0	0,3
Foreign tax rate differential and other	(0,3)	(1,6)
Withholding taxation	0,0	0,1
	28,0	28,0

* This relates mainly to the impact of the impairments of goodwill which is treated as a non-deductible expense.

South African income taxation is calculated at 28% (2017: 28%) of the taxable income for the year. Taxation in other jurisdictions is calculated at the prevailing rates.



Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2018

	2018 Rm	2017 Rm
13. NON-CASH AND OTHER MOVEMENTS		
Earnings from disposal of property, plant, equipment and vehicles	(129)	(147)
Gain on Steeledale transaction	–	(2)
Impairment loss on goodwill, intangible assets and property, plant and equipment	1 298	278
Impairment loss on equity-accounted investments	195	–
Fair value adjustment on properties and disposal groups classified as Held for Sale	807	–
Unrealised foreign exchange losses on borrowings and other liabilities	3	–
Other fair value adjustments	–	(56)
Movements in foreign currency translation	(11)	(562)
Movement in equity-settled share-based payment reserve	8	12
Other non-cash items	6	–
Claims write-down	–	4 967
	2 177	4 490
14. CONTINGENT LIABILITIES		
Contingent liabilities at the reporting date, not otherwise provided for in the consolidated financial statements, arise from performance bonds and guarantees issued in:		
South Africa and rest of Africa		
Guarantees and bonds (ZARm)	2 155	3 014
Parent company guarantees (ZARm)	509	507
	2 664	3 521
Australasia and Asia		
Guarantees and bonds (AUDm)	287	326
Parent company guarantees (AUDm)	337	588
	624	914

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.

Contingent assets

In the prior period, a counterclaim against the Group was awarded to Kenmare Resources to the value of R150 million for Professional Indemnity insurance. The Group has lodged a claim against the insurer to recover this amount.

15. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS

The directors are not aware of any other significant matter or circumstance arising after the reporting period up to the date of this report except as stated below:

15.1 Liquidity, solvency, ongoing funding, rights issue, early redemption of convertible bond, and the going concern assertion

As included in the director's report, and further detailed below, 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 executed post the year end, the actions taken by the Group, the financial 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. In forming the conclusion, the directors have considered the following:

Funding from South African funding banks

The Group continuously engages with its major funding banks who currently provide various facilities to the Group under existing agreements. Refer to *note 11: Borrowings and other liabilities*. After the year end, the Group concluded a revised Common Terms Agreement with its South African lending banks. Through this process the following were negotiated:

- uu Renewed facilities including additional funding of R400 million and extended funding terms to 2020;
- uu The profile for the repayment of capital in specific tranches takes into account the anticipated timing of receipts from disposal of non-core assets per the strategic review; and
- uu Ongoing compliance with financial covenants including an EBITDA covenant, and a liquidity headroom covenant.

15.2 Rights offer to qualifying shareholders

The Group undertook a renounceable rights offer to raise up to R500 million, 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 R493,2 million was raised.

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



Notes to the summarised consolidated financial statements *continued* for the year ended 30 June 2018

15. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS *continued*

15.3 Early bond redemption of 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:

- uu On 3 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;
- uu 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;
- uu On 17 September 2018, a specific buyback of R657 million of the existing convertible bonds at 70% of the principal amount (a 30% discount) was completed;
- uu The buyback was funded by a new debt instrument of R460 million, the terms of which will rank *pari passu* with the bank debt (excluding Super Senior Facilities) under the revised Common Terms Agreement;
- uu The remaining R1,4 billion bonds were settled through the specific issue of ordinary shares at R0,10 per share on 25 September 2018;
- uu The Group's gross debt:equity ratio improved to 40% following this transaction.

15.4 Continued disposal of non-core assets

The strategic review identified the non-core business and assets to be sold to improve liquidity. The Group announced on 2 August 2018 that it had entered into agreements to sell its Jet Park and Vanderbijlpark properties for R254 million.

Jet Park property

The Group has entered into a binding term sheet on 2 August 2018 for the sale of its Jet Park offices located in Boksburg to Equites Property Fund Limited for R211,2 million (net of commission). The Group will enter into a triple net lease on the property for a maximum of 24 months, but with the ability for the Group to terminate the lease with three months' notice and market related monthly rental of R1,1 million, subject to an annual escalation of 8%. This sale is only subject to shareholder approval.

Vanderbijlpark property

The Group has accepted an offer of R42,6 million from Stodasat (Proprietary) Limited for the Vanderbijlpark property following an auction process. The transfer is expected to be completed by 30 November 2018, subject to the conveyancing process.

The disposal process for the balance of the non-core businesses and assets remains an overriding priority in the achievement of the strategic plan and significant interest from credible buyers has been received. For most of businesses identified for sale, progress has been made ranging from expressions of interest, through to non-binding offers.

Commentary

RESULTS FOR THE YEAR ENDED 30 JUNE 2018 AND STRATEGIC REVIEW UPDATE

SALIENT FEATURES

- uu Sustainable capital structure achieved
 - R493 million rights issue completed
 - Early redemption of R2 billion convertible bond
 - Bank debt renegotiated and termed out to 2020
 - Gross debt / equity improved to 40%
 - Overall net cash position achieved
- uu Liquidity improved and stabilised
- uu Non-core asset sales of R254 million announced
- uu McConnell Dowell performance on track

IDENTIFYING AND ADDRESSING THE CHALLENGES

Over the past few years, Aveng has been faced with significant challenges, all of which have had a negative impact on the Group's financial performance including:

- uu Simultaneous reduced demand in most of its sectors, particularly reduced investment in infrastructure development, mining and rail in South Africa;
- uu Operational underperformance;
- uu Associated poor cash-flow generation, which left the Group with liquidity challenges and an unsustainable debt burden; and
- uu Impairments and write-downs of previously uncertified revenue.

In September 2017, the Group was facing a perfect storm including funding constraints, ongoing losses and a significant impairment of over valued uncertified revenue claims due to a difficult environment for settlements. After a change in leadership the Group announced that it was embarking on an extensive strategic review to ensure a sustainable future for Aveng. This review was completed and announced in February 2018 following a thorough and robust interrogation of all parts of the business.

The outcome of the review was the adoption by the Board of a new and focused strategy to be an international infrastructure and resources group operating in selected fast-growing markets, capitalising on its considerable knowledge and experience. This resulted in identifying the businesses and assets that support its overall long-term strategy and therefore will be core to the Group. The Board focused on ensuring acceptable returns for the providers of capital and a sustainable future for employees, customers, suppliers and other stakeholders. It approved the most appropriate operating structure and recommended a sustainable future capital and funding model.



Commentary

DEVELOPING A PLAN OF ACTION

The aim of the strategic action plan, which was developed from the strategic review, is to create a robust and sustainable Group. Since February 2018, the implementation of the strategic action plan has focused on:

- uu Ensuring a long-term sustainable capital structure for the Group;
- uu Creating liquidity through the sale of non-core businesses and assets; and
- uu Unlocking value from Aveng's core businesses.

Ensuring a sustainable capital structure

One of the key initiatives in the strategic action plan was to finalise a set of capital market transactions that would ensure a long-term, sustainable capital structure for the Group. This included raising new capital and settling the existing convertible bonds before their July 2019 maturity date. A significant amount of work has been done since February 2018 to achieve this goal, strengthening Aveng's balance sheet and creating a platform for the Group to implement the strategic action plan.

The successful rights offer concluded on 4 July 2018 raised R493 million of new capital from shareholders and indicated strong shareholder support for Aveng's strategy.

Aveng's R2 billion of convertible bonds were placing significant constraints on the Group's capital structure, making it increasingly difficult to operate, which is why Aveng was intent on the early redemption from the July 2019 date.

Aveng bondholders voted to accept the terms of the early bond redemption on 30 August 2018 and, on 10 September 2018, shareholders passed the resolutions giving effect to the specific issue of shares at R0,10, equivalent to the rights offer price, to settle the convertible bonds. This included the Company's largest single shareholder Aton, who engaged with the Company in a positive manner and expressed their support for Aveng's continued independent future.

In terms of the early bond redemption, Aveng capitalised R96 million of interest costs and bought back R657 million of the existing convertible bonds at 70% of the principal amount (at a 30% discount). This was done to ensure that no individual shareholder would own a shareholding in Aveng that was more than the prescribed limits. The specific bond buyback was funded by a new debt instrument of R460 million. The remaining R1,4 billion bonds were settled through the specific issue of Aveng shares on 25 September 2018.

The early bond redemption has removed a net R1,5 billion of debt from the balance sheet and together with the related interest burden, bringing Aveng's debt to a more sustainable level and significantly de-risking the business.

Aveng has concluded a revised Common Terms Agreement with its South African lending banks. Through this process, Aveng negotiated renewed facilities, obtained additional funding of R400 million to improve the liquidity position and extended the funding terms to 2020.

Commentary continued

These renegotiated terms have removed some of the immediate pressures on liquidity and provided certainty as to the availability of ongoing banking facilities.

An improved liquidity forecasting and management process is now fully operational and firmly embedded across all of Aveng's South African businesses. The process has resulted in better control of cash, bank facilities and working capital as well as improved accuracy of cash flow forecasting.

Progressive further improvement of the quality of the Group's balance sheet throughout the implementation of the strategic action plan remains vitally important to providing all stakeholders with the assurance that they are dealing with a sustainable partner.

The Directors of Aveng believe that the Aveng Group remains a going concern based on post-year end developments, including the conclusion of the revised Common Terms Agreement with its South African lending banks, the early redemption of the convertible bond, the successful rights issue as well as the status of disposals of non-core assets and other initiatives already embarked on by the Group.

Creating liquidity through the sale of non-core assets

In parallel with the capital markets transaction, the management team has focused on the disposal of identified businesses and other assets as a key component of the strategic action plan. Aveng intends to dispose of the Grinaker-LTA and Trident Steel operating divisions, as well as the individual Manufacturing businesses together with certain property and investment assets.

The strategic review revealed that, while these are inherently good businesses, it is highly likely that they would be more successful in the hands of new owners. The intent is therefore, to sell these businesses as going concerns and Aveng will remain fully engaged to support the businesses to drive improved performance until new owners are introduced. This approach will ensure a sustainable future for employees, customers and suppliers of these businesses and it will allow Aveng to realise acceptable value.

Management obtained independent valuations in support of the fair value assessments and remain confident that it will be able to realise acceptable values for these assets. There has been significant interest from credible buyers for the majority of the businesses earmarked for sale, with some early progress on these disposals. Shareholders will be kept informed of developments.

In August 2018, Aveng announced that it had successfully sold its Vanderbijlpark and Jet Park properties for a total value of R254 million. The disposal of the Jet Park property remains subject to shareholders' approval. The Jet Park circular will be posted by no later than 15 October 2018.

The achievement of this objective remains an overriding priority in the achievement of the strategic action plan. The planned completion of all disposals is by June 2019.



Commentary continued

Unlocking value from core businesses

McConnell Dowell and Moolmans were identified as the core businesses capable of achieving Aveng's long-term strategy. Both of these businesses are well positioned to take advantage of strong long-term market opportunities.

McConnell Dowell

In June 2017 McConnell Dowell completed a restructure of its balance sheet following a review of all long-outstanding uncertified revenue and claims. This allowed the business to embark on a more customer-centric settlement approach aimed at disengaging from various litigation processes. This has yielded good results, with 20 of the 24 identified legacy claims being settled largely in line with the expected values. The remaining claims are on track for resolution and remain a source of future additional liquidity.

With a strengthened leadership team, McConnell Dowell is delivering improved project performance and greater consistency of execution and is now well positioned to capitalise on growth opportunities. Notably, McConnell Dowell has been operating on a self-sustaining basis since the recapitalisation in September 2017, and this trend is expected to continue.

McConnell Dowell has successfully completed a number of large contracts during the period and received several industry awards in the process. Its reputation for excellence and its specialist technical capabilities of marine, pipelines, tunnelling, rail, mechanical and fabrication, together with its long-established brand, make McConnell Dowell an attractive contracting partner. The markets serviced by McConnell Dowell offer significant opportunities but remain intensely competitive. In conjunction with the improved operating model, McConnell Dowell has undertaken an in-depth review of all markets in which it operates and has redefined its addressable market to target opportunities that are in line with its acknowledged areas of specialisation and in which the company has a demonstrable history of successful execution.

Moolmans

Moolmans continues to enjoy a strong market position as the pre-eminent open-cut mining contractor. Its track record of operational and financial performance, which has earned Moolmans the reputation among customers as a reliable partner, and its resilience in a difficult commodity market, has made Moolmans more sustainable than its competitors.

The South African mining sector has been under significant pressure. Moolmans has underperformed for the year primarily due to poor contract performance in the second half of the year. A comprehensive and focused Group-led turnaround intervention has been implemented and good progress is being made addressing the key issues. There is an immediate and urgent focus on improving contract performance, renegotiating contractual terms and, where necessary, exiting contracts. The turnaround programme is expected to continue throughout the current financial year.

Commentary continued

With loss-making contracts eliminated, the difficulties experienced by the mining business in FY2018 are not expected to recur and a gradual recovery is expected, with improvement in FY2019.

Similar to McConnell Dowell, Moolmans will be enhancing its business development focus and processes.

MARKET REVIEW

The overall construction industry in Australia, New Zealand and Asia Pacific remains positive and active across all operating regions. Strong opportunities in infrastructure development are primarily being driven by population growth and urbanisation. In the context of increased activity in the construction industry, governments in these regions remain focused on the development of transport infrastructure, energy and utilities facilities.

The construction industry across Southeast Asia is expected to continue to experience strong growth, with rapid urbanisation contributing to the development and expansion of inter-city rail projects, airport expansions and improvements to water and sewerage facilities. There is strong competition in all of these markets.

The mining industry in South Africa is cautiously optimistic, with some mining companies looking to increase output and make new investments in assets. The changing political environment in the country and the current rally in commodity prices provide opportunities for Moolmans, both within South Africa and selected markets in the rest of Africa.

FINANCIAL PERFORMANCE

Aveng reported a headline loss of R1,7 billion (2017: R6,4 billion) and a net loss of R3,5 billion (2017: R6,7 billion). This loss includes an impairment charge of R2,3 billion relating to the non-core assets transferred to Held for Sale being measured at fair value.

Basic loss per share was 653,9 cents loss per share compared to a 1 245,1 cents loss per share (restated) in the comparative period and headline loss per share decreased to 311,6 cents (2017: 1 197,0 cents restated) loss per share.

Statement of comprehensive earnings

Revenue increased by 30% to R30,6 billion (2017: R23,5 billion). Excluding the impact of the write-downs on long outstanding uncertified revenue of R5,1 billion in the prior year, revenue increased by 11% mainly due to improved performance at McConnell Dowell throughout its markets. Despite the challenges it has faced, Moolmans saw a 13% increase in revenue.

The gross margin for the Group deteriorated to 5,9% from an adjusted 7,2% in the comparative period due to lower margins in Moolmans, Civil Engineering and Manufacturing.



Commentary continued

Net operating earnings decreased from an adjusted loss of R113 million in 2017 to a loss of R401 million. There were a number of factors that influenced this:

- uu Moolmans reported an R11 million operating profit which was heavily impacted by underperformance on three key contracts;
- uu Declining revenue and operational underperformance in two business units within the Manufacturing operating group. This reflected overall weak operating conditions in infrastructure, rail, underground mining and water sectors served by the majority of the manufacturing business units; and
- uu Aveng Grinaker-LTA results were impacted by a combination of ongoing underperformance on major road and building projects and further retrenchment costs, resulting in a loss of R367 million.

However, these were partially offset by:

- uu Improved results in McConnell Dowell with a return to profitability, reporting a net operating profit of R103 million compared to an adjusted loss of R129 million in the comparative period. The return to profitability was driven by improved project execution; and
- uu Aveng Trident Steel's return to profitability was on the back of growing demand in the automotive industry coupled with higher steel prices and the continued focus on reducing costs.

An impairment charge of R2,3 billion was mainly recognised against property, plant and equipment, goodwill and intangible assets that were reclassified as Held for Sale, as well as fair value adjustments to non-core assets. Following the strategic review, the decision to dispose of non-core assets has resulted in the consideration of impairment and the reclassification of these assets as Held for Sale at year end. This required the realisable value to be assessed under a different valuation approach, being fair value less costs to sell. Management performed this assessment with the support of an independent consultant. The Board interrogated and approved these valuations and the related impairments and fair value adjustments. This change in measurement criteria has resulted in adjustments to non-core asset values and related assets such as deferred taxation. An impairment charge of R1,3 billion (2017: R278 million) was mainly recognised against goodwill, intangible assets, property, plant and equipment, and R195 million against equity accounted investments. In addition, fair value adjustments on assets transferred to Held for Sale amounted to R807 million.

Net finance charges of R439 million included a non-recurring interest benefit of R118 million received. Excluding this, the cost would be higher than the previous corresponding period, due to higher utilisation and an increased cost of facilities.

Statement of financial position

The Group incurred capital expenditure of R786 million (2017: R955 million), applying R648 million (2017: R820 million) to replace and R138 million (2017: R135 million) to expand property, plant and equipment.

Commentary continued

The majority of this amount was spent as follows:

- ⌘ R136 million at McConnell Dowell, relating to specific projects in Australia and Southeast Asia;
- ⌘ R507 million at Moolmans relating to new equipment spend and component replacement; and
- ⌘ R69 million at Aveng Manufacturing.

Assets Held for Sale increased to R4,8 billion (2017: R122 million) due to the reclassification of the non-core assets.

Liabilities Held for Sale increased to R4,1 billion (2017: R0 million) due to the reclassification of the non-core assets.

Amounts due from contract customers (non-current and current) improved to R4,0 billion before Held for Sale (2017: R4,5 billion) due to receipt of QCLNG claim and improved collections in Aveng Grinaker-LTA and Moolmans.

Deferred tax assets were impaired by R509 million, following the change in measurement criteria and reclassification of the non-core assets to Held for Sale. The change necessitated an assessment of the expected future utilisation of the deferred tax assets. Although assessed losses do not expire, management's estimate reflects the expected utilisation of the deferred tax assets within the foreseeable future.

Operating free cash flow for the period amounted to an outflow of R34 million and included:

- ⌘ Cash inflow of R202 million in McConnell Dowell which includes early receipts from certain contracts, the receipt of the QCLNG award and improved operational performance on projects;
- ⌘ Positive cash flow generated by Aveng Grinaker-LTA due to solid performances from Water, Building South and Mechanical & Electrical;
- ⌘ Cash outflow of R79 million at Moolmans after capital expenditure;
- ⌘ Cash outflow at Aveng Manufacturing of R107 million was driven by underperformance;
- ⌘ Net capital expenditure of R495 million;
- ⌘ Net finance charges paid of R288 million; and
- ⌘ Taxation of R95 million.

Cash and bank balances (net of bank overdrafts) increased slightly to R2,1 billion (2017: R2 billion) resulting in a net debt position of R1,2 billion (2017: R1 billion).

OPERATING REVIEW

Safety

Regrettably, just before year end on 18 June 2018, Anele Nwelende, working on the R61 – All Saints Roads project, lost his life in a fatal accident. The Aveng Board and management extend their sincere condolences and deepest sympathy to Mr Nwelende's family and colleagues.



Commentary *continued*

Aveng remains concerned with the current levels of unsafe behaviour by public road users, especially given the Group's various public road projects. Efforts to address such risks include increasing safety controls on road closures and enhancing employee vigilance during work activities inside a road closure or in close proximity to public vehicles.

Safety remains a core value for Aveng and is integral to the way in which its operating groups conduct their business. Aveng prioritises the well-being of its people, clients and communities in which it operates. The Group remains fully committed to delivering on its safety vision of "*Home Without Harm, Everyone, Everyday*".

As part of Aveng's focus on continuous improvement in safety, health and environment ("SHE") performance and reporting, a change was adopted in FY2018 in line with international best practice. The All Injury Frequency Rate ("AIFR") has been replaced with Total Recordable Injury Frequency Rate ("TRIFR"). This indicator includes fatalities, lost-time injuries, restricted workday cases and medical treatment cases but excludes first aid cases, and is calculated using 200 000 man-hours as the baseline for its frequency rate. The TRIFR has shown a sturdy performance for FY2018 with an improvement at 0,91 exceeding the target of 0,98.

Construction & Engineering: Australasia and Asia

This operating segment comprises four McConnell Dowell business units: Australia, New Zealand and Pacific, Southeast Asia and Built Environs.

Revenue increased by 29% to AUD1,2 billion (Adjusted 2017: AUD906 million), reflecting the increased activity experienced in the growing markets in which McConnell Dowell operates. McConnell Dowell returned to profitability in the period as a result of improved project execution and associated margin generation. The new operating framework and streamlined management systems improved efficiency and led to more consistent performance on projects, which are now delivering the planned results.

McConnell Dowell is strategically positioned in high-growth markets to leverage off its geographical and diversified sectors to grow its order book. The planned new work is lower, following the change in approach to winning new work, which is to target opportunities that are in line with acknowledged areas of specialisation and in which the company has demonstrated successful execution. At the same time, all markets remain strongly competitive.

Australia

Revenue increased by 79% to AUD587 million (2017: AUD328 million) due to strong project execution on the Amrun Export Facility Jetty, Northern Gas Pipeline, Murray Basin Rail upgrade and Swanson Dock East Rehab Works. While the recently awarded projects achieved planned performance, operating earnings were impacted by a small number of historic loss-making contracts that are close to being resolved.

Commentary continued

Southeast Asia

Revenue increased by 11% to AUD263 million (2017: AUD237 million) driven by strong progress on the Tuas Bridge Project, Marina Bay Sands Project, Rapid Solid Product Jetty Project and Nakhon Ratchasima Pipeline Project. The operational results were negatively impacted by underperformance on the two underpass projects in Singapore. The Tangguh LNG export jetty is advancing but is experiencing schedule impacts associated with engineering and project mobilisation activities.

New Zealand and Pacific Islands

Revenue reduced by 35% to AUD174 million (2017: AUD270 million). The unit successfully completed key projects within the region, including the Kawarua Falls Bridge, Russley Road Overpass on the South Island and the Mangere BNR on the North Island.

Despite a decline in earnings, operational performance was strengthened during the year as reflected in good progress on the City Rail Link project in the Auckland CBD, Sumner Road replacement and the Christchurch Southern Motorway on the South Island.

Built Environs

Revenue increased by 92% to AUD90 million (2017: AUD47 million) which was negatively impacted by the termination of the U2 on Waymouth contract. Built Environs is restoring operational excellence and broadening its market presence and activity in line with its growth plan.

Construction on the West Franklin Apartments is progressing to plan and the Urbanest student accommodation was successfully completed in January 2018, making this the fastest construction of a 22-storey building in Adelaide.

Moolmans

This operating segment comprises the merged businesses of Moolmans and Aveng Shafts & Underground.

The segment reported an increase in revenue to R4,7 billion (2017: R4,1 billion). Net operating earnings decreased by 95% to R11 million (2017: R219 million). This has resulted in the renegotiation or exit of some problematic contracts which will remove significant risk from the business. The impact of these contracts was accounted for in the current year's results.

The contract at Gamsberg (South Africa) has been extended by the award of the South Pit; at Tshipi (South Africa) volumes have increased and the Lefa (Guinea) project has been converted into a bulk cubic metres (BCM) contract from an equipment rental contract.



Commentary continued

Construction & Engineering: South Africa and rest of Africa

This operating segment comprises Aveng Grinaker-LTA and Aveng Capital Partners.

Significant progress has been made to turn around Aveng Grinaker-LTA following the appointment of a new leadership team in the second half of the financial year. The operating segment's revenue was R6,6 billion (2017: R6,1 billion). A combination of ongoing underperformance on major roads and buildings projects and further retrenchment costs resulted in a disappointing loss of R367 million (2017: R188 million adjusted loss). This was partly offset by positive results from Mechanical & Electrical, Building South and Water.

Civil Engineering

Revenue increased by 14% to R1,6 billion (2017: R1,4 billion), mainly due to the Majuba Coal handling project. However, conditions in the civil infrastructure market remained difficult. The business unit's exposure to roads projects that experienced weather or community-related disruptions and commercial challenges contributed to a loss of R318 million (2017: R397 million loss). Three of the loss-making roads contracts in the Civil Engineering business have been completed in line with the revised plans while the remaining two roads contracts are performing in line with expectations.

Mechanical & Electrical

Revenue decreased by 9% to R1,1 billion (2017: R1,2 billion) due to lower levels of work on major power projects. However, the business unit performed to expectation, delivering an operating profit of R40 million as it successfully completed several diverse projects and focused on major shutdown and maintenance contracts in the petrochemical market.

Buildings and Coastal

The revenue of Building and Building South increased to R3,7 billion (2017: R3,1 billion) as work continued on a number of major commercial, industrial and healthcare projects across South Africa. There was a strong focus on delivering quality work in safe working environments, but financial performance was impacted by margin erosion on a small number of high value building projects. This resulted in a net operating loss of R45 million (2017: R75 million). In Gauteng, the Old Mutual Head Office in Sandton was completed, while the Leonardo Towers and 129 Rivonia developments are on track for completion in 2019. The 400-bed Dr Pixley Ka Isaka Seme Memorial Hospital project in KwaZulu-Natal addressed challenges in its operating environment by establishing community partnerships to address local participation.

Aveng Water

Revenue decreased by 12% to R318 million (2017: R356 million) while operational contracts delivered a pleasing operating profit of R52 million (2017: R32 million). The business unit closed out the construction phase of the eMalahleni project and is now progressing to the operations and optimisation phases of this water treatment plant. The Erongo desalination plant in Namibia was also successfully ramped-up.

Commentary continued

Manufacturing and Processing

This operating segment comprises Aveng Manufacturing and Aveng Steel.

Revenue decreased by 7% to R7,4 billion (2017: R7,9 billion). A net operating loss of R167 million was reported (2017: R3 million loss).

Aveng Manufacturing

This operating group consists of Aveng Automation & Control Solutions (ACS), Aveng Dynamic Fluid Control (DFC), Aveng Duraset, Aveng Infraset and Aveng Rail.

While two of the Aveng Manufacturing business units have performed profitably, other business units exposed to the mining and rail sectors continue to experience headwinds, resulting in an overall operating loss for the operating group. Revenue decreased by 13% to R2,1 billion (2017: R2,4 billion). Net operating earnings decreased to a loss of R196 million (2017: profit of R51 million) reflecting weak operating conditions in the infrastructure, rail, underground mining and water sectors. New leadership has developed a focused strategy to address underperformance, including closing non-performing sites, rationalising production facilities and reducing operational costs and capacity. The acceleration of disposals of the business units within this operating group remains a priority.

Aveng ACS: revenue increased by 9% to R444 million (2017: R408 million) due to improved conditions in the oil & gas and chemical sectors. Operating earnings remained flat.

Aveng DFC: revenue decreased by 6% to R452 million (2017: R481 million). This was largely due to the short-term impact of changes in the supply chain and optimisation of production processes.

Aveng Duraset: revenue decreased by 6% to R427 million (2017: R454 million), largely impacted by rising steel prices while over-capacity in a competitive mining products market had a materially negative impact on profit margins, resulting in an operating loss.

Aveng Infraset: revenue decreased by 13% to R644 million (2017: R744 million) as a result of falling demand for both railway sleepers and concrete paving products. Closure, disinvestment or restructuring of loss-making factories in Kuils River, Pietermaritzburg and Wadeville resulted in short-term costs that increased the operating loss.

Aveng Rail: revenue decreased by 55% to R166 million (2017: R372 million) due to ongoing delays in railway construction projects and significantly reduced spend in the mechanised track maintenance market.



Commentary continued

Aveng Steel

This operating group consists of Aveng Trident Steel.

Aveng Trident Steel

Revenue decreased by 5% to R5,2 billion (2017: R5,5 billion), largely on the back of lower volumes, but an improved margin and a closer control on costs and efficiencies ensured a return to profitability, achieving net operating earnings of R29 million (2017: R54 million loss). Growing demand in the automotive industry countered the impact of lower domestic steel consumption on the operating group's sales volumes. Higher average steel prices and the ongoing rightsizing of operations were the key drivers of increased profitability.

TWO-YEAR ORDER BOOK

The Group's two-year order book amounted to R17,9 billion at 30 June 2018, decreasing by 28% from the R25,1 billion reported at 31 December 2017, as a result of a 37% decrease in AUD terms in McConnell Dowell's order book, translating into a 34% decrease in Rand terms.

The geographic split of the order book at 30 June 2018 was 43% Australasia and Asia (December 2017: 46%), 51% South Africa (December 2017: 46%) and 6% other (December 2017: 8%).

At 30 June 2018, McConnell Dowell's two-year order book was AUD0,8 billion vs AUD1,2 billion in December 2017. The existing order book is of higher quality due to the improved project execution demonstrated in the current results as well as the elimination of zero contribution legacy contracts. As such there is a higher level of confidence that McConnell Dowell will deliver the gross margins embedded within the current order book.

Winning new work continues to be a key focus for McConnell Dowell. Encouragingly, a key aspect of this is the focus on a number of Early Client Involvement (ECI) projects. In this type of process, clients engage with a preferred contractor to fully develop the scope and costs associated with the project. Due to the collaborative nature of this process, there is a higher likelihood that these will result in contract awards. The approximate value of work being pursued by McConnell Dowell through ECI projects is AUD1,25 billion.

Moolmans' order book at 30 June 2018 was R5,3 billion versus R6,7 billion in December 2017, a decline of 21%. Similar to McConnell Dowell, Moolmans will be enhancing its business development focus and processes. While the market remains competitive, there are several opportunities being pursued by Moolmans.

Aveng Grinaker-LTA's order book decreased by 24% since December 2017. Securing quality work at targeted margins remains a priority for the operating group.

Commentary continued

OUTLOOK AND PROSPECTS

A great deal has been achieved to date to place the Group in a more stable position. The capital markets transactions concluded in July and September 2018 provide a much-strengthened capital structure and a solid platform from which to advance the strategic action plan to its successful conclusion.

In the short to medium term, the Board and Executive management of Aveng will remain focused on accelerating the Group turnaround. This will include the management of the Group's liquidity and the disposal of the non-core assets by the targeted deadline of June 2019. In the interim, Aveng will continue to support the individual management teams to ensure that operational and financial performance is stabilised and optimised at each business unit in preparation for sale.

Going forward as an international infrastructure and resources group, the optimisation of both McConnell Dowell and Moolmans is critical to the success of the Aveng Group. Priorities for McConnell Dowell are to convert ECI opportunities into order book and to win work in its target markets and specialist areas. At Moolmans, management will focus on ensuring that the interventions deliver improved operational and financial performance while business development processes are enhanced.

Strong employees are the bedrock of the organisation and, as with any change process, Aveng is cognisant of the impact of the uncertainty that this process has had on employees over the previous year. The Group will continue to focus on ways to rebuild morale and enhance the safety, health and wellness of all employees.

Disclaimer

The financial information on which any outlook statements are based has not been reviewed or reported on by the external auditor. These forward-looking statements are based on management's current belief and expectations and are subject to uncertainty and changes in circumstances. The forward-looking statements involve risks that may affect the Group's operations, markets, products, services and prices.

By order of the Board



EK Diack
Executive Chairman and Group CEO



AH Macartney
Chief Financial Officer

Date of release: 25 September 2018



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Share ISIN: ZAE 000194940
JSE 2019 convertible bond code: AEGCB
JSE 2019 convertible bond ISIN: ZAE 000194940
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