AVENG
Providing a better life

Reviewed interim condensed consolidated financial statements **for the six months ended 31 December 2020**

SAFETY AND CARE | HONESTY AND INTEGRITY | CUSTOMER FOCUS | WORKING TOGETHER | PERFORMANCE EXCELLENCE

Salient features – financial performance

for the six months ended 31 December 2020

Core revenue (McConnell Dowell and Moolmans)

R10,5 billion

Increase from R6,9 billion at December 2019

Operating earnings

R280 million

Increase from R14 million at December 2019

Work in hand

R27,7 billion

Increase from R26,8 billion at June 2020

Operating free cash flow

R1,4 billion inflow

December 2019: R174 million inflow

Net cash position (excluding IFRS 16 lease liabilities)

R579 million

Net debt position of R552 million at 30 June 2020

Headline earnings

R109 million

December 2019: R205 million headline loss

Headline earnings per share

0,6 cents

1,1 cents headline loss per share at December 2019

Earnings attributable to equity holders of the parent

R438 million

Increase from R168 million loss at December 2019

Salient features – segmental analysis

for the six months ended 31 December 2020

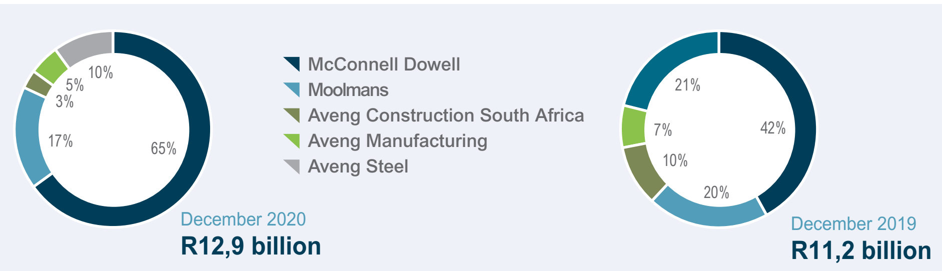
Net operating earnings / (loss) – segmental analysis

	December 2020 Rm	December 2019 Rm	June 2020 Rm
Construction and Engineering: Australasia and Asia	**153**	59	(162)*
Mining	**132**	117	38
Construction and Engineering: South Africa and rest of Africa	**(145)**	(142)	(174)
Aveng Construction: South Africa**	**(155)**	(164)	(174)
Aveng Capital Partners	**10**	22	–
Manufacturing and Processing	**132**	57	(41)
Aveng Steel	**107**	50	13
Aveng Manufacturing	**25**	7	(54)
Other and Eliminations	**8**	(77)	(193)
Net operating earnings / (loss)	**280**	14	(532)
Earnings / (loss) attributable to equity-holders of the parent	**438**	(168)	(1 119)
Headline earnings / (loss)	**109**	(205)	(950)

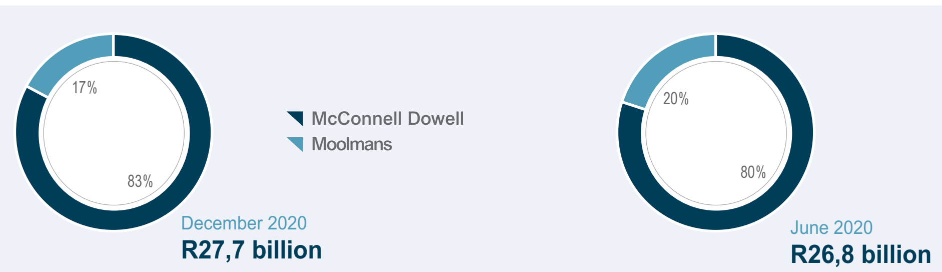
* *Includes a claims write-down of R227 million.*

** *Formerly Aveng Grinaker-LTA*

REVENUE PER OPERATING GROUP



WORK IN HAND PER OPERATING GROUP



Interim condensed consolidated statement of financial position

as at 31 December 2020

	Notes	31 December 2020 (Reviewed) Rm	31 December 2019 (Reviewed) Rm	30 June 2020 (Audited) Rm
ASSETS				
Non-current assets				
Goodwill arising on consolidation		**100**	100	100
Intangible assets		**15**	34	15
Property, plant and equipment		**2 898**	3 284	3 180
Equity-accounted investments		**31**	31	35
Infrastructure investments		**261**	142	259
Deferred taxation		**737**	617	813
Derivative instruments		**–**	–	1
Long-term receivables		**–**	52	43
Amounts due from contract customers	9	**–**	460	–
		4 042	4 720	4 446
Current assets				
Inventories		**212**	220	187
Derivative instruments		**–**	–	9
Amounts due from contract customers	9	**2 789**	1 769	2 531
Trade and other receivables		**308**	281	358
Taxation receivable		**40**	12	41
Cash and bank balances		**2 684**	1 396	1 755
		6 033	3 678	4 881
Assets Held for Sale	10	**1 927**	3 057	2 309
TOTAL ASSETS		**12 002**	11 455	11 636

Interim condensed consolidated statement of financial position continued

as at 31 December 2020

	Notes	31 December 2020 (Reviewed) Rm	31 December 2019 (Reviewed) Rm	30 June 2020 (Audited) Rm
EQUITY AND LIABILITIES				
Equity				
Stated capital		**3 874**	3 874	3 874
Other reserves		**931**	700	1 102
Accumulated losses		**(2 705)**	(2 192)	(3 143)
Equity attributable to equity-holders of parent		**2 100**	2 382	1 833
Non-controlling interest		**2**	4	7
TOTAL EQUITY		**2 102**	2 386	1 840
Liabilities				
Non-current liabilities				
Deferred taxation		**161**	85	166
Borrowings and other liabilities	11	**1 577**	1 408	1 313
Payables other than contract-related		**90**	115	104
Employee-related payables		**379**	248	330
		2 207	1 856	1 913
Current liabilities				
Amounts due to contract customers	9	**1 844**	684	1 290
Borrowings and other liabilities	11	**975**	1 025	1 067
Payables other than contract-related		**64**	21	44
Employee-related payables		**233**	217	243
Derivative instruments		**1**	1	–
Trade and other payables		**2 933**	2 317	2 764
Bank overdrafts		**–**	–	424
		6 050	4 265	5 832
Liabilities Held for Sale	10	**1 643**	2 948	2 051
TOTAL LIABILITIES		**9 900**	9 069	9 796
TOTAL EQUITY AND LIABILITIES		**12 002**	11 455	11 636

Interim condensed consolidated statement of comprehensive earnings

for the six months ended 31 December 2020

	Notes	Six months ended 31 December 2020 (Reviewed) Rm	Six months ended 31 December 2019 (Reviewed) Rm	Year ended 30 June 2020 (Audited) Rm
Revenue		**12 896**	11 185	20 878
Continuing operations		**10 906**	6 886	14 185
Discontinued operations	5	**1 990**	4 299	6 693
Cost of sales		**(12 063)**	(10 415)	(19 907)
Continuing operations		**(10 268)**	(6 177)	(13 305)
Discontinued operations	5	**(1 795)**	(4 238)	(6 602)
Gross earnings		**833**	770	971
Other earnings		**183**	131	163
Continuing operations		**126**	9	37
Discontinued operations	5	**57**	122	126
Operating expenses		**(735)**	(886)	(1 647)
Continuing operations		**(615)**	(619)	(1 217)
Discontinued operations	5	**(120)**	(267)	(430)
Loss from equity-accounted investments		**(1)**	(1)	(19)
Operating earnings / (loss)		**280**	14	(532)
Impairment loss on goodwill, intangible assets and property, plant and equipment	7	**(54)**	–	(147)
Impairment loss on long-term receivables	7	**(45)**	–	–
Impairment loss on equity-accounted investments	7	**–**	(11)	(21)
Gain on disposal of assets Held for Sale		**40**	54	24
Gain on disposal of subsidiaries	13	**–**	10	10
Gain on disposal of property, plant and equipment		**9**	28	61
Fair value adjustment on disposal groups classified as Held for Sale	5/10	**415**	–	(13)
Earnings / (loss) before financing transactions		**645**	95	(618)
Interest earned on bank balances		**15**	85	32
Other finance expenses		**(192)**	(302)	(461)
Earnings / (loss) before taxation		**468**	(122)	(1 047)
Taxation	14	**(30)**	(48)	(69)
Earnings / (loss) for the period		**438**	(170)	(1 116)
Loss from continuing operations	5.3	**(71)**	(31)	(825)
Earnings / (loss) from discontinued operations	5	**509**	(139)	(291)

Interim condensed consolidated statement of comprehensive earnings continued

for the six months ended 31 December 2020

	Six months ended 31 December 2020 (Reviewed) Rm	Six months ended 31 December 2019 (Reviewed) Rm	Year ended 30 June 2020 (Audited) 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	**(176)**	(82)	318
Other comprehensive (loss) / earnings for the period, net of taxation	**(176)**	(82)	318
Total comprehensive loss for the period attributable to:			
Equity-holders of the parent	**267**	(249)	(798)
Non-controlling interest	**(5)**	(3)	–
Total comprehensive loss for the period, net of taxation	**262**	(252)	(798)
Earnings / (loss) for the period attributable to:			
Equity-holders of the parent	**438**	(168)	(1 119)
Non-controlling interest	**–**	(2)	3
	438	(170)	(1 116)
Other comprehensive loss for the period, net of taxation			
Equity-holders of the parent	**(171)**	(81)	321
Non-controlling interest	**(5)**	(1)	(3)
	(176)	(82)	318

	Six months ended 31 December 2020 (Reviewed) Rm	Six months ended 31 December 2019 (Reviewed) Rm	Year ended 30 June 2020 (Audited) Rm
Results per share (cents)			
From continuing and discontinued operations			
Earnings / (loss) – basic	**2,3**	(0,9)	(5,8)
Earnings / (loss) – diluted	**2,3**	(0,9)	(5,8)
From continuing operations			
Loss – basic	**(0,3)**	(0,2)	(4,3)
Loss – diluted	**(0,3)**	(0,2)	(4,3)
From discontinued operations			
Earnings / (loss) – basic	**2,6**	(0,7)	(1,5)
Earnings / (loss) – diluted	**2,6**	(0,7)	(1,5)
Number of shares (millions)			
In issue	**19 394,5**	19 394,5	19 394,5
Weighted average	**19 369,6**	19 369,6	19 369,6
Diluted weighted average	**19 369,6**	19 369,6	19 369,6

The continuing and discontinued operations' net operating earnings / (loss) before interest, depreciation and amortisation for the Group, being net operating earnings / (loss) before interest, tax, depreciation and amortisation is R720 million (June 2020: R362 million loss; December 2019: R468 million earnings).

Interim condensed consolidated statement of changes in equity

for the six months ended 31 December 2020

	Stated capital Rm	Foreign currency translation reserve Rm	Equity-settled share-based payment reserve Rm
Six months ended 31 December 2019 (Reviewed)			
Balance at 1 July 2019 as previously reported	3 874	741	40
Adoption of *IFRS 16* accounting standard*	–	–	–
Balance at 1 July 2019	3 874	741	40
Loss for the period	–	–	–
Other comprehensive loss for the period (net of taxation)	–	(81)	–
Total comprehensive loss for the period	–	(81)	–
Balance at 31 December 2019	3 874	660	40
Year ended 30 June 2020 (Audited)			
Balance at 1 July 2019 as previously reported	3 874	741	40
Adoption of *IFRS 16* accounting standard*	–	–	–
Balance at 1 July 2019	3 874	741	40
(Loss) / earnings for the period	–	–	–
Other comprehensive earnings for the period (net of taxation)	–	321	–
Total comprehensive earnings / (loss) for the period	–	321	–
Balance at 30 June 2020	**3 874**	**1 062**	**40**
Six months ended 31 December 2020 (Reviewed)			
Balance at 1 July 2020	**3 874**	**1 062**	**40**
Earnings for the period	**–**	**–**	**–**
Other comprehensive loss for the period (net of taxation)	**–**	**(171)**	**–**
Total comprehensive (loss) / earnings for the period	**–**	**(171)**	**–**
Balance at 31 December 2020	**3 874**	**891**	**40**

** The adoption of IFRS 16 Leases has impacted the prior year accumulated losses opening balance by R184 million.*

	Total other reserves Rm	Accumulated loss Rm	Total attributable to equity-holders of the parent Rm	Non-controlling interest Rm	Total equity Rm
	781	(2 208)	2 447	7	2 454
	–	184	184	–	184
	781	(2 024)	2 631	7	2 638
	–	(168)	(168)	(2)	(170)
	(81)	–	(81)	(1)	(82)
	(81)	(168)	(249)	(3)	(252)
	700	(2 192)	2 382	4	2 386
	781	(2 208)	2 447	7	2 454
	–	184	184	–	184
	781	(2 024)	2 631	7	2 638
	–	(1 119)	(1 119)	3	(1 116)
	321	–	321	(3)	318
	321	(1 119)	(798)	–	(798)
	1 102	**(3 143)**	**1 833**	**7**	**1 840**
	1 102	**(3 143)**	**1 833**	**7**	**1 840**
	–	**438**	**438**	**–**	**438**
	(171)	**–**	**(171)**	**(5)**	**(176)**
	(171)	**438**	**267**	**(5)**	**262**
	931	**(2 705)**	**2 100**	**2**	**2 102**

Interim condensed consolidated statement of cash flows

for the six months ended 31 December 2020

	Note	31 December 2020 (Reviewed) Rm	31 December 2019 (Reviewed) Rm	30 June 2020 (Audited) Rm
Operating activities				
Cash retained / (utilised) from operations		**632**	72	(624)
Non-cash and other movements	15	**(171)**	(118)	110
Cash generated / (utilised) from operations after non-cash movements		**461**	(46)	(514)
Depreciation		**438**	449	885
Amortisation		**2**	5	9
Cash generated by operations		**901**	408	380
Changes in working capital:				
(Increase) / decrease in inventories		**(25)**	(6)	28
(Increase) / decrease in amounts due from contract customers		**(258)**	392	(57)
Increase in trade and other receivables		**(12)**	(87)	(85)
Increase / (decrease) in amounts due to contract customers		**554**	(129)	449
Increase / (decrease) in trade and other payables		**176**	(250)	(160)
Decrease / (increase) in derivative instruments		**11**	–	(11)
Increase in payables other than contract-related		**6**	–	12
Increase / (decrease) in employee-related payables		**62**	(60)	87
Increase in working capital Held for Sale		**444**	175	103
Total changes in working capital		**958**	35	366
Cash generated by operating activities		**1 859**	443	746
Finance expenses paid		**(182)**	(304)	(449)
Finance earnings received		**15**	85	32
Taxation paid		**(17)**	(20)	(50)
Cash inflow from operating activities		**1 675**	204	279

	31 December 2020 (Reviewed) Rm	31 December 2019 (Reviewed) Rm	30 June 2020 (Audited) Rm
Investing activities			
Acquisition of property, plant and equipment – expansion	**(40)**	(2)	(3)
Acquisition of property, plant and equipment – replacement	**(372)**	(371)	(759)
Proceeds on disposal of property, plant and equipment	**110**	37	143
Proceeds on disposal of assets Held for Sale	**49**	106	110
Proceeds on disposal of subsidiaries	**–**	116	116
Capital expenditure net of proceeds on disposal	**(253)**	(114)	(393)
Dividends received	**14**	24	25
Movement in property, plant and equipment, intangible assets and investments classified as Held for Sale	**(5)**	60	84
Cash outflow from investing activities	**(244)**	(30)	(284)
Operating free cash inflow / (outflow)	**1 431**	174	(5)
Financing activities with debt-holders			
Repayment of external borrowings	**(99)**	(276)	(390)
Proceeds from external borrowings	**271**	76	115
Payment of capital portion of lease liabilities	**(79)**	(99)	(158)
Movement in borrowings and other liabilities classified as Held for Sale	**(36)**	(26)	(57)
Increase in long-term loan receivable	**–**	(52)	–
Cash inflow / (outflow) from financing activities	**57**	(377)	(490)
Net increase / (decrease) in cash and bank balances before foreign exchange movements	**1 488**	(203)	(495)
Foreign exchange movements on cash and bank balances	**(135)**	(6)	221
Cash and bank balances at the beginning of the period	**1 331**	1 605	1 605
Total cash and bank balances at the end of the period	**2 684**	1 396	1 331
Borrowings and other liabilities excluding bank overdrafts	**2 552**	2 433	2 380
Net cash / (debt) position	**132**	(1 037)	(1 049)
Net cash / (debt) position (excluding lease liabilities)	**579**	(549)	(552)

Notes to the interim condensed consolidated financial statements

for the six months ended 31 December 2020

1. CORPORATE INFORMATION

The reviewed interim condensed consolidated financial statements (interim results) of Aveng Limited (the Company) and its subsidiaries (the Group) for the six months ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 22 February 2021.

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. BASIS OF PREPARATION AND CHANGES TO THE GROUP ACCOUNTING POLICY

Basis of preparation

The interim results have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value.

These interim results are presented in South Africa Rand (ZAR) and all values are rounded to the nearest million (Rm) except when otherwise indicated. The interim results are prepared in accordance with *IAS 34 Interim Financial Statements* (IAS 34) and the Listings Requirements of the Johannesburg Stock Exchange. The accounting policies adopted are consistent with those of the Group's audited financial statements as at 30 June 2020.

The interim results have been prepared by Gregory Beevers CA(SA) under the supervision of the Group finance director, Adrian Macartney CA(SA).

The interim results for the six-month period ended 31 December 2020, set out on pages 3 to 60, have been reviewed by the company's external auditors Ernst & Young Incorporated, in accordance with International Standard on Review Engagements *ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditors of the Entity (ISRE 2410)*. The unmodified review opinion is available on request from the Company Secretary at the company's registered office.

Changes to the group accounting policies

A number of new standards and interpretations are effective from 1 July 2020. Management's interim assessment determined that the new standards and interpretations will not have a material effect on the Group's financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Judgements and estimation assumptions

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

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

3.1 Deferred taxation

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

Refer to *note 14: Taxation* for further detail.

3.2 Amounts due from / (to) contract customers

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

Refer to *note 9: Amounts due from / (to) contract customers* for further detail.

3.3 Loss-making and onerous contracts

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

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

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Judgements and estimation assumptions continued

3.4 Trade and other receivables and contract receivables

Allowance for doubtful debts

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

Provision for expected credit losses

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

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

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

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Judgements and estimation assumptions continued

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

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

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

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

3.6 Revenue recognition

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

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

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

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

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

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

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Judgements and estimation assumptions continued

3.7 Leases

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Judgements and estimation assumptions continued

3.8 Uncertainty over income tax treatments

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

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

3.9 Impact of the COVID-19 outbreak on operations

At 31 December 2020, the impact and duration of the current COVID-19 outbreak and the related measures taken to control it, including the likelihood of a global recession, are not yet known. In preparing these interim condensed consolidated financial statements, the short-term impact on items such as financial instruments, working capital, sales and provisions has been considered. The valuations of financial assets and liabilities carried at fair value reflect inputs at the balance sheet date. In assessing the carrying value of its other non-current assets, the Group assumes that, despite a significant short-term impact, long-term market conditions remain unchanged, as the timing and scale of the economic impact and recovery remain uncertain.

3.10 Held for Sale – subsequent measurement criteria

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

In the preceding 6 months there have been numerous expressions of interest, and a number of non-binding offers for CGUs within the disposal groups, however, the Group did not receive reasonable offers to purchase all of the remaining CGUs. The delay in the finalisation of sales was due to events and circumstances beyond the control of management; including but not limited to the significant impact of COVID-19 on the ability to obtain the best value for the remaining assets, and the corresponding uncertainty within the market brought about during lockdown.

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

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

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

4. GOING CONCERN AND LIQUIDITY

As detailed in *note 2: Basis of preparation and changes to the group accounting policy and note 17: Events after the reporting period* to the interim financial statements, in determining the appropriate basis of preparation of the interim financial statements, the Board is required to consider whether the Group can continue in operational existence for the foreseeable future.

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

Execution of plans

- Continued improvement in the operating performance and therefore underlying value and sustainability of both McConnell Dowell and Moolmans;
- Progress on the non-core asset disposal plan:
  - The receipt of proceeds of R49 million in the interim period, included, Duraset, Infraset Pietermaritzburg, Ground Engineering Limited (GEL) and various properties; and
  - Ongoing negotiations for the sale of Automation & Control Systems (ACS), Trident Steel and Infraset.
- Updated budget and business plans for post period end up to 30 June 2022 for the Group, incorporating the benefits already realised and expected from actions taken, as well as future benefits from improved liquidity to be achieved;
- The positive impact on the capital structure and debt reduction to be achieved through the balance sheet restructure transaction to be completed post period end;
- Sensitivity testing of key inputs included in the operating and liquidity forecasts to ascertain the effect of non-achievement of one or more of the key inputs (operational performance of core assets, non-core asset disposal timing), including any effect on the ongoing compliance with covenant requirements in place with the South African lending banks, Australian banks or other financing agreements within the individual liquidity pools; and
- The South African short-term liquidity forecast which management continues to execute and monitor in the South African operations.

At 31 December 2020, the Group reported earnings after tax of R438 million and an operating free cash inflow of R1,4 billion. Despite the continued difficult trading conditions, the Group's available cash resources were positively 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 R2,7 billion (30 June 2020: R1,3 billion) at 31 December 2020 of which R 307 million (30 June 2020: R429 million) is held in joint arrangements. Unutilised facilities amounted to R511 million (30 June 2020: R483 million).

4. GOING CONCERN AND LIQUIDITY continued

COVID-19 pandemic

The Group's agile, resilient and diverse business model across customers, geographies, industry sectors and commodities continues to provide risk mitigation in the current circumstances. The Group proactively monitors and manages infection rates, restrictions and lockdowns to protect employees, operations and our financial and liquidity position.

As reported previously, it is expected that the commercial impact of COVID-19 related matters will continue to impact the business due to the uncertainties posed by the pandemic and the related response by governments and societies around the globe.

Achieved subsequent to period end

Post period end and following the favourable shareholders vote on 20 January 2021, authorising the specific issue of shares to settle debt and supporting a fully underwritten rights offer of R300 million by two of Aveng's largest shareholders, the agreements to implement the balance sheet restructure and recapitalisation transaction were executed. Details of this are set out in *note 17: Events after the reporting period*.

Liquidity, solvency and ongoing funding

The Group continues to actively manage the liquidity and cash flow in two distinct liquidity pools, namely McConnell Dowell and the South African liquidity pool. McConnell Dowell's liquidity benefited from the receipt of advance payments and a growing order book. As a result, McConnell Dowell reported a strong cash balance with sufficient cash and liquidity to support the growing order book and the growth opportunities that this market continues to present. Despite the continued lockdown regulations in South Africa, the South African operations produced an improvement in the liquidity position. As noted, this resulted in the short-term bridge facilities being repaid in the reporting period. The South African liquidity pool remains tightly managed and continues to demonstrate significant improvement compared to the prior period. Following the completion of the rights offering, the recapitalisation and the planned settlement of debt in the next quarter of FY21, the position is expected to improve further.

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

The Group's current liabilities of R6,1 billion exceeded its current assets of R6,0 billion at 31 December 2020. This was mainly due to the classification of the short-term debt portion of R975 million to current borrowings. Following the execution of the fully underwritten rights offer and the implementation of the Fourth Amended and Restated Common Terms Agreement concluded post the reporting period, this short-term position will improve.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

4. GOING CONCERN AND LIQUIDITY continued

Liquidity, solvency and ongoing funding continued

Following a multi-year journey, the balance sheet restructure transaction to be implemented post period end, will allow the Group to reset its capital structure, deleveraging the balance sheet by more than R1,1 billion, extending the Group's maturity profile to 3 years, and simultaneously materially improving the Group's South African liquidity pool. Following this transformational event, Aveng believes that the remaining debt is sustainable with a maturity profile of three years.

The balance sheet restructure and recapitalisation transaction provides Aveng with a sustainable capital structure and a platform from which the Group is able to execute its Group strategy.

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

The directors have considered all of the above, including detailed consideration of the current position of all core and non-core businesses, all business plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the interim condensed consolidated financial statements, and that sufficient liquidity will be available to support the ongoing operations of the Group, and that the realisation of assets and settlement of liabilities, including contingent liabilities and commitments will occur in the ordinary course of business. *Refer to note 17: Events after the reporting period.*

5. DISCONTINUED OPERATIONS

5.1 Identification and classification of discontinued operations

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

A comprehensive plan was developed and is being implemented by management to execute on the critical findings of the strategic review. Some of the critical findings included the reshaping of the Group's operating structure to a smaller and more focused group. The newly envisaged Group structure comprises McConnell Dowell and Aveng Moolmans forming the core business of the Group with Aveng Construction: South Africa (formerly Aveng Grinaker-LTA), Aveng Manufacturing and Aveng Trident Steel being deemed the non-core operating groups. As at 31 December 2020, management remained committed to a robust plan to exit and dispose of the identified remaining non-core operating groups.

5. DISCONTINUED OPERATIONS continued

5.2 Extension of discontinued operations beyond 12 months

The extension of the classification of the remaining operations within non-core operating segments as discontinued operations beyond 12 months is supported by the ongoing commitment from the Board to actively sell the Held for Sale assets in line with the strategic review. Unforeseen challenges outside the control of management, including the negative effects of the COVID-19 pandemic on the disposal process, have delayed the execution of sales on the remaining assets. As at 31 December 2020, the Group did not have reasonable binding offers to purchase the remaining assets. Despite the delays in the disposal of these assets, management believes that the sales remain highly probable and has embarked on renewed efforts to sell the assets by engaging external partners to assist in active programmes to locate buyers and complete the sale of these assets in line with the strategic review. At 31 December 2020, these assets remain available for immediate sale in their present condition subject only to terms that are usual and customary for the sales of such assets. Management continues to actively market the assets at prices that are reasonable in relation to their current fair value, which leads management to conclude that it is highly probable that the sale of the remaining assets within the non-core operating segments will be concluded in the next 6 months.

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

Aveng Manufacturing and Aveng Trident Steel, both forming part of the *Manufacturing and Processing* segment, 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.

Construction and Engineering: South Africa and rest of Africa segment includes *Aveng Capital Partners (ACP)* and the remaining assets and liabilities related to the close-out of historical contracts not sold as part of the disposal of *Aveng Construction: South Africa (formerly Aveng Grinaker-LTA)* businesses in the prior year.

The Group's intention to dispose of the non-core operating groups triggered an initial impairment assessment on the underlying assets at 30 June 2018, and impairment was allocated to the identified cash generating units of the operating groups (refer to *note 7: Impairment Loss*).

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*).

Further to this, the Group remeasured the non-core operating groups by calculating the subsequent fair value less costs to sell as at 31 December 2020. The subsequent fair value measurement is detailed on the following page.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

5. DISCONTINUED OPERATIONS continued

5.3 Continuing operations

The historical contracts not sold as part of the disposal of *Aveng Construction: South Africa (formerly Aveng Grinaker-LTA)* no longer meet the requirements in terms of *IFRS 5* to be disclosed as discontinued operations and have been presented as part of the continuing operations in the Group's statement of comprehensive earnings in the current year.

For the interim period ended December 2020, continuing operations consist of the following segments:

- *Construction and Engineering: Australasia and Asia*
- *Mining*
- *Construction and Engineering: South Africa and the rest of Africa*
- *Other and Eliminations*

Refer to *note 6: Segmental Report* for further information.

5. DISCONTINUED OPERATIONS continued

The earnings / (loss) from discontinued operations is analysed as follows:

	31 December 2020 (Reviewed) Rm	31 December 2019 (Reviewed) Rm	30 June 2020 (Audited) Rm
Revenue	**1 990**	4 299	6 693
Cost of sales	**(1 795)**	(4 238)	(6 602)
Gross earnings	**195**	61	91
Other earnings	**57**	122	126
Operating expenses	**(120)**	(267)	(430)
Earnings / (Loss) from equity-accounted investments	**–**	(1)	(2)
Operating earnings / (loss)	**132**	(85)	(215)
Gain on disposal of property, plant and equipment	**10**	2	36
Fair value adjustments on properties and disposal groups classified as Held for Sale	**415**	–	(13)
Earnings / (loss) before financing transactions	**557**	(83)	(192)
Net finance expenses	**(48)**	(59)	(110)
Earnings / (loss) before taxation	**509**	(142)	(302)
Taxation	**–**	3	11
Earnings / (loss) for the period	**509**	(139)	(291)
Attributable to:			
Equity-holders of the parent	**509**	(139)	(291)
Items by nature			
Capital expenditure	**14**	10	25
Net operating earnings / (loss) before interest, depreciation and amortisation (EBITDA)	**132**	(85)	(215)
Results per share (cents)			
Earnings / (loss) – basic	**2,6**	(0,7)	(1,5)
Earnings / (loss) – diluted	**2,6**	(0,7)	(1,5)
Cash outflow from operating activities	**528**	(40)	(313)
Cash inflow from investing activities	**(5)**	84	108
Cash outflow from financing activities	**(36)**	(26)	(57)

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

6. SEGMENTAL REPORT

The reportable segments of the Group are components:

- that engage in business activities from which they earn revenues and incur expenses; and
- have operating results that are regularly reviewed by the Group's chief operating decision-makers to make decisions about resources to be allocated to the segments and in the assessment of their performance as required per *IFRS 8 Operating Segments*.

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

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

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

Details on the reportable segments are as follows:

6.1 Construction and Engineering: Australasia and Asia

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

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

6.2 Mining

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

6. SEGMENTAL REPORT continued

6.3 Construction and Engineering: South Africa and rest of Africa

This segment includes Aveng Construction: South Africa (formerly Aveng Grinaker-LTA) and Aveng Capital Partners (ACP).

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.

The Group disposed of the following business units in the prior year: Aveng Construction Building and Coastal, Aveng Construction Civil Engineering, Aveng Construction Rand Roads and Aveng Construction Mechanical & Electrical.

The Group disposed of Aveng Construction Ground Engineering (GEL) in the current year.

Following the sale of these businesses in the current and prior year, the segment includes only the assets and liabilities related to the close out of a limited number of historical contracts not sold as part of the Aveng Construction: South Africa disposal.

6.4 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 Duraset and Aveng Infraset.

The Group disposed of Aveng Infraset Pietermaritzburg factory and Aveng Duraset business in the current year.

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

6.5 Other and Eliminations

This segment comprises corporate services, and the balance of corporate held investments, properties and consolidation eliminations.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

6. SEGMENTAL REPORT continued

Segment report December 2020 (Reviewed)	Construction and Engineering: Australasia and Asia Rm	Mining Rm
Assets		
Goodwill arising on consolidation	100	–
Intangible assets	–	15
Property, plant and equipment	757	2 107
Equity-accounted investments	–	3
Infrastructure investments	–	–
Deferred taxation	737	–
Amounts due from contract customers	2 480	337
Inventories	16	196
Trade and other receivables	139	56
Taxation receivable / (payable)	32	(6)
Cash and bank balances	2 123	331
Assets Held for Sale	–	–
Total assets	6 384	3 039
Deferred taxation	136	235
Borrowings and other liabilities	381	131
Payables other than contract related	–	–
Employee-related payables	445	113
Trade and other payables	1 840	581
Derivative instruments	–	–
Amounts due to contract customers	1 684	151
Liabilities Held for Sale	–	–
Total liabilities	4 486	1 211

Construction and Engineering: South Africa and rest of Africa* Rm	Manufacturing and Processing Rm	Other and Eliminations Rm	Total Rm
–	–	–	100
–	–	–	15
–	–	34	2 898
–	–	28	31
119	–	142	261
–	–	–	737
(25)	–	(3)	2 789
–	–	–	212
78	10	25	308
(4)	7	11	40
50	314	(134)	2 684
13	1 914	–	1 927
231	2 245	103	12 002
12	(9)	(213)	161
–	–	2 040	2 552
–	–	154	154
–	–	54	612
392	–	120	2 933
–	–	1	1
9	–	–	1 844
–	1 643	–	1 643
413	1 634	2 156	9 900

* *Construction and Engineering: South Africa and rest of Africa includes the remaining assets and liabilities related to the close out of historical contracts not transferred as part of the sale of the Aveng Construction: South Africa (formerly Aveng Grinaker-LTA) businesses.*

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

6. SEGMENTAL REPORT continued

Segment report December 2019 (Reviewed)	Construction and Engineering: Australasia and Asia Rm	Mining Rm
Assets		
Goodwill arising on consolidation	100	–
Intangible assets	–	18
Property, plant and equipment	756	2 439
Equity-accounted investments	2	3
Infrastructure investments	–	–
Deferred taxation	627	–
Long-term receivables	–	–
Amounts due from contract customers	1 878	408
Inventories	26	194
Trade and other receivables	119	59
Taxation receivable/(payable)	37	(13)
Cash and bank balances	1 102	159
Assets Held for Sale	–	–
Total assets	4 647	3 267
Liabilities		
Deferred taxation	87	264
Borrowings and other liabilities	438	307
Payables other than contract related payables	–	–
Employee-related payables	295	91
Trade and other payables	1 498	541
Derivative instruments	–	1
Amounts due to contract customers	552	132
Liabilities Held for Sale	–	–
Total liabilities	2 870	1 336

Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Other and Eliminations Rm	Total Rm
–	–	–	100
–	–	16	34
–	–	89	3 284
26	–	–	31
–	–	142	142
–	–	(10)	617
–	–	52	52
–	–	(57)	2 229
–	–	–	220
–	–	103	281
(3)	(2)	(7)	12
119	307	(291)	1 396
352	2 705	–	3 057
494	3 010	37	11 455
–	19	(285)	85
–	–	1 688	2 433
–	–	136	136
–	–	79	465
25	7	246	2 317
–	–	–	1
–	–	–	684
463	2 485	–	2 948
488	2 511	1 864	9 069

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

6. SEGMENTAL REPORT continued

Segment report June 2020 (Audited)	Construction and Engineering: Australasia and Asia Rm	Mining Rm
Assets		
Goodwill arising on consolidation	100	–
Intangible assets	–	15
Property, plant and equipment	837	2 263
Equity-accounted investments	2	3
Infrastructure investments	–	–
Deferred taxation	804	–
Long-term receivables	–	–
Derivative instruments	–	10
Amounts due from contract customers	2 084	369
Inventories	15	171
Trade and other receivables	201	43
Taxation receivable/(payable)	39	(16)
Cash and bank balances	1 673	93
Assets Held for Sale	–	–
Total assets	5 755	2 951
Liabilities		
Deferred taxation	155	197
Borrowings and other liabilities	436	217
Payables other than contract related	–	–
Employee-related payables	387	118
Trade and other payables	1 697	454
Derivative instruments	–	–
Amounts due to contract customers	1 159	103
Taxation payable	–	–
Liabilities Held for Sale	–	–
Total liabilities	3 834	1 089

Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Other and Eliminations Rm	Total Rm
–	–	–	100
–	–	–	15
2	–	78	3 180
–	–	30	35
117		142	259
–	–	9	813
–	–	43	43
–	–	–	10
78	–	–	2 531
1	–	–	187
72	–	42	358
–	1	17	41
46	151	(208)	1 755
33	2 276	–	2 309
349	2 428	153	11 636
–	–	(186)	166
–	–	1 727	2 380
–	–	148	148
11	–	57	573
349	–	264	2 764
–	–	–	–
28	–	–	1 290
–	–	424	424
16	2 035	–	2 051
404	2 035	2 434	9 796

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

6. SEGMENTAL REPORT continued

Six months ended December 2020 (Reviewed)	Construction and Engineering: Australasia and Asia Rm	Mining Rm
Revenue	8 368	2 131
Construction contract revenue	8 368	2 129
Sale of goods	–	1
Other revenue	–	1
Transport revenue	–	–
Cost of sales	(7 890)	(1 921)
Gross earnings / (loss)	478	210
Other earnings	94	13
Operating expenses	(418)	(92)
(Loss) / earnings from equity-accounted investments	(1)	1
Operating earnings / (loss)	153	132
Impairment loss on goodwill, intangible assets and property, plant and equipment	–	(2)
Impairment loss of long-term receivables	–	–
Gain on disposal of assets Held for Sale	–	–
Gain on sale of property, plant and equipment	–	–
Fair value adjustment on disposal groups classified as Held for Sale	–	–
Earnings / (loss) before financing transactions	153	130
Net finance income / (expenses)	(16)	(12)
Earnings / (Loss) before taxation	137	118
Taxation	(22)	(8)
Earnings / (Loss) for the period	115	110
Capital expenditure	75	337
Operating earnings / (loss)	153	132
Depreciation	115	313
Amortisation	–	2
Earnings / (loss) before interest, taxation, depreciation and amortisation (EBITDA)	268	447

Construction and Engineering: South Africa and rest of Africa* Rm	Manufacturing and Processing Rm	Other and Eliminations Rm	Total Rm
396	1 990	11	12 896
396	–	–	10 893
–	1 957	11	1 969
–	5	–	6
–	28	–	28
(535)	(1 795)	78	(12 063)
(139)	195	89	833
10	57	9	183
(15)	(120)	(90)	(735)
(1)	–	–	(1)
(145)	132	8	280
–	–	(52)	(54)
–	–	(45)	(45)
–	–	40	40
–	10	(1)	9
–	415	–	415
(145)	557	(50)	645
7	(48)	(108)	(177)
(138)	509	(158)	468
–	–	–	(30)
(138)	509	(158)	438
–	14	–	426
(145)	132	8	280
–	–	10	438
–	–	–	2
(145)	132	18	720

** Construction and Engineering: South Africa and rest of Africa includes the remaining income and expenditure related to the close out of historical contracts not sold as part of the disposal of the Aveng Construction: South Africa (formerly Aveng Grinaker-LTA) businesses.*

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

6. SEGMENTAL REPORT continued

Six months ended December 2019 (Reviewed)	Construction and Engineering: Australasia and Asia Rm	Mining Rm
Revenue	4 636	2 287
Construction contract revenue	4 636	2 285
Sale of goods	–	1
Other revenue	–	1
Transport revenue	–	–
Cost of sales	(4 162)	(2 085)
Gross earnings / (loss)	474	202
Other earnings / (loss)	(1)	(7)
Operating expenses	(414)	(78)
Loss from equity-accounted investments	–	–
Net operating earnings / (loss)	59	117
Impairment loss on equity-accounted investments	–	–
Gain on disposal of assets Held for Sale	–	–
Gain on disposal of subsidiary	–	–
Gain on sale of property, plant and equipment	–	–
Earnings / (loss) before financing transactions	59	117
Net finance income / (expenses)	(20)	(18)
Earnings / (loss) before taxation	39	99
Taxation	(17)	(35)
Earnings / (loss) for the period	22	64
Capital expenditure	42	330
Net operating earnings / (loss)	59	117
Depreciation	117	329
Amortisation	–	2
Earnings / (loss) before interest, taxation, depreciation and amortisation (EBITDA)	176	448

Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Other and Eliminations Rm	Total Rm
1 151	3 148	(37)	11 185
1 151	–	(17)	8 055
–	3 103	(21)	3 083
–	7	1	9
–	38	–	38
(1 275)	(2 963)	70	(10 415)
(124)	185	33	770
55	67	17	131
(72)	(195)	(127)	(886)
(1)	–	–	(1)
(142)	57	(77)	14
–	–	(11)	(11)
–	–	54	54
–	–	10	10
1	1	26	28
(141)	58	2	95
3	(62)	(120)	(217)
(138)	(4)	(118)	(122)
(12)	15	1	(48)
(150)	11	(117)	(170)
–	10	1	383
(142)	57	(77)	14
–	–	3	449
–	–	3	5
(142)	57	(71)	468

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

6. SEGMENTAL REPORT continued

Year ended June 2020 (Audited)	Construction and Engineering: Australasia and Asia Rm	Mining Rm
Revenue	10 297	3 955
Construction contract revenue	10 297	3 943
Sale of goods	–	1
Other revenue	–	11
Transport revenue	–	–
Cost of sales	(9 704)	(3 741)
Gross earnings / (loss)	593	214
Other earnings	42	(31)
Operating expenses	(784)	(144)
(Loss) / earnings from equity-accounted investments	(13)	(1)
Net operating (loss) / earnings	(162)	38
Impairment loss on goodwill, intangible assets and property, plant and equipment	–	(132)
Impairment loss on equity-accounted investments	–	–
Gain on disposal of assets Held for Sale	–	–
Gain on disposal of subsidiaries	–	–
Gain / (loss) on sale of property, plant and equipment	45	(5)
Fair value adjustments on properties and disposal groups classified as Held for Sale	–	–
Loss before financing transactions	(117)	(99)
Net finance income / (expenses)	(43)	(34)
Loss before taxation	(160)	(133)
Taxation	(36)	(5)
Loss for the period	(196)	(138)
Capital expenditure	148	609
Net operating (loss) / earnings	(162)	38
Depreciation	280	600
Amortisation	–	4
Earnings / (loss) before interest, taxation, depreciation and amortisation (EBITDA)	118	642

Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Other and Eliminations Rm	Total Rm
1 865	4 828	(67)	20 878
1 862	–	(16)	16 086
–	4 758	(52)	4 707
3	16	1	31
–	54	–	54
(2 007)	(4 595)	140	(19 907)
(142)	233	73	971
43	83	26	163
(73)	(357)	(289)	(1 647)
(2)	–	(3)	(19)
(174)	(41)	(193)	(532)
–	–	(15)	(147)
–	–	(21)	(21)
–	–	24	24
–	–	10	10
19	17	(15)	61
–	(13)	–	(13)
(155)	(37)	(210)	(618)
1	(111)	(242)	(429)
(154)	(148)	(452)	(1 047)
6	5	(39)	(69)
(148)	(143)	(491)	(1 116)
–	25	5	787
(174)	(41)	(193)	(532)
–	–	5	885
–	–	5	9
(174)	(41)	(183)	362

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

6. SEGMENTAL REPORT continued

The Group operates in the following principal geographical areas:

	Six months ended December 2020 (Reviewed) Rm	Six months ended December 2019 (Reviewed) Rm	Year ended June 2020 (Audited) Rm
Revenue			
South Africa	**4 380**	6 170	10 019
Rest of Africa including Mauritius	**148**	318	509
Australia	**6 189**	2 476	6 129
New Zealand	**1 396**	1 339	2 751
Southeast Asia	**783**	828	1 417
Other regions	**–**	54	53
	12 896	11 185	20 878
Segment assets			
South Africa	**5 403**	6 519	6 485
Rest of Africa including Mauritius	**172**	240	201
Australia	**4 086**	2 753	3 632
New Zealand	**1 140**	886	741
Southeast Asia	**1 159**	1 008	534
Other regions	**42**	49	43
	12 002	11 455	11 636

7. IMPAIRMENT

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

7.1 CGUs of the Group in the scope of *IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations*

Initial classification as Held for Sale

As detailed in the *note 5: Discontinued Operations*, the Board made the decision in January 2018 that the following operating groups no longer form part of the overall long-term strategy of the Group:

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

The intention of the Board to discontinue the operations of these operating groups 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*.

The following business units were deemed to be individual CGUs for which individual impairment assessments were performed at 30 June 2020:

Construction and Engineering: South Africa and rest of Africa

- Aveng Construction Ground Engineering (GEL)

Manufacturing and Processing

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

As at 31 December 2020, the Group does not expect that the fair value less costs to dispose of CGUs differ materially from the value determined at 30 June 2020. Therefore, it has been determined that the fair value less costs to dispose exceeds the carrying amount, and no additional impairment is required for any of these CGUs.

Subsequent sale of CGUs Held for Sale

As at 31 December 2020, the Group had finalised the sale of the following CGUs:

Construction and Engineering: South Africa and rest of Africa

- Aveng Construction Ground Engineering (GEL)

Manufacturing and Processing

- Aveng Duraset
- Aveng Infraset Pietermaritzburg factory

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

7. IMPAIRMENT continued

7.1 CGUs of the Group in the scope of *IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations* continued

Subsequent remeasurement of CGUs Held for Sale to Fair Value less costs of disposal

As at 31 December 2020, management subsequently calculated the recoverable amounts of the CGUs Held for Sale to be fair value less cost of disposal. As at 31 December 2020, a fair value adjustment of R415 million was recognised in the *Manufacturing and Processing* segment to reflect the CGU at fair value less cost of disposal.

7.2 Assets in the scope of *IAS 36 Impairments* and *IFRS 9 Financial Instruments*

Individual assets in the scope of *IAS 36 – Impairments* and *IFRS 9 Financial Instruments*

An impairment assessment was performed on plant and equipment accounted for in Moolmans. Moolmans falls under the Mining segment. An impairment of R2 million was required for this CGU at 31 December 2020 (31 December 2019: no additional impairment required; 30 June 2020: R132 million).

An impairment assessment was performed on intangible assets accounted for in *Other and Eliminations* and determined that no impairment was required (30 June 2020: R15 million).

An impairment assessment was performed on right-of-use assets accounted for in the *Other and Eliminations* segment. An impairment of R52 million was required for this segment at 31 December 2020.

An impairment assessment was performed under *IFRS 9 Financial Instruments* on long-term receivables accounted for in the *Other and Eliminations* segment. An impairment of R45 million was required for this segment at 31 December 2020.

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

8. HEADLINE EARNINGS / (LOSS)

	December 2020 (Reviewed)		December 2019 (Reviewed)		June 2020 (Audited)	
	Gross of taxation Rm	**Net of taxation Rm**	Gross of taxation Rm	Net of taxation Rm	Gross of taxation Rm	Net of taxation Rm
Determination of headline earnings / (loss)						
Earnings / (loss) for the period attributable to equity holders of parent		**438**		(168)		(1 119)
Impairment of intangible assets	**–**	**–**	–	–	15	15
Impairment of property, plant and equipment	**54**	**54**	–	–	132	132
Gain on disposal of assets Held for Sale	**(40)**	**(40)**	(54)	(54)	(24)	(24)
Gain on disposal of subsidiaries	**–**	**–**	(10)	(10)	(10)	(10)
Impairment loss on equity-accounted investments	**–**	**–**	11	11	21	21
Loss on derecognition of components	**81**	**81**	44	44	69	69
Gain on disposal of property, plant and equipment	**(9)**	**(9)**	(28)	(28)	(61)	(47)
Fair value adjustment on disposal groups classified as Held for Sale	**(415)**	**(415)**	–	–	13	13
Headline earnings / (loss)		**109**		(205)		(950)
Diluted headline earnings / (loss)		**109**		(205)		(950)
HEPS from continuing and discontinued operations						
Headline earnings / (loss) per share – basic (cents)		**0,6**		(1,1)		(4,9)
Headline earnings / (loss) per share – diluted (cents)		**0,6**		(1,1)		(4,9)
Issued shares		**19 394,5**		19 394,5		19 394,5
Weighted average shares		**19 369,6**		19 369,6		19 369,6
Diluted shares		**19 369,6**		19 369,6		19 369,6

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

9. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS

	December 2020 (Reviewed) Rm	December 2019 (Reviewed) Rm	June 2020 (Audited) Rm
Uncertified claims and variations (underclaims)*[1]	**879**	1 173	652
Contract contingencies	**(380)**	(199)	(290)
Progress billings received (including overclaims)[2]	**(1 794)**	(654)	(1 285)
Uncertified claims and variations less progress billings received	**(1 295)**	320	(923)
Contract receivables[3]	**2 240**	1 216	2 121
Provision for expected credit losses	**(2)**	(1)	(1)
Retention receivables[4]	**52**	40	49
	995	1 575	1 246
Amounts received in advance[5]	**(50)**	(30)	(5)
Net amounts due from contract customers	**945**	1 545	1 241
Disclosed on the statement of financial position as follows:			
Uncertified claims and variations*[1]	**879**	1 173	652
Contract contingencies	**(380)**	(199)	(290)
Contract and retention receivables	**2 292**	1 256	2 170
Provision for expected credit losses	**(2)**	(1)	(1)
Amounts due from contract customers	**2 789**	2 229	2 531
Progress billings received	**(1 794)**	(654)	(1 285)
Amounts received in advance	**(50)**	(30)	(5)
Amounts due to contract customers	**(1 844)**	(684)	(1 290)
Net amounts due from contract customers	**945**	1 545	1 241

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

1 *Includes revenue not yet certified – recognised based on recognised over time / measurement and agreed variations, less provisions and deferred contract costs.*

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

3 *Amounts invoiced still due from customers.*

4 *Retentions are amounts invoiced but not paid until the conditions specified in the contract are fulfilled or until defects have been rectified. These conditions are anticipated to be fulfilled within the following 12 months.*

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

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

The balances included in the table above relate only to assets not Held for Sale. Refer to *note 10: Assets and liabilities classified as Held for Sale* for disclosure of the disposal groups' amount due from / (to) contract customers classified as Held for Sale.

The net amounts due from contract customers includes R281 million (December 2019: R460 million; June 2020: R297 million) which is subject to protracted legal proceedings.

Expected credit losses

Impact of COVID-19

The assessment of recoverability of amounts due from contract customers and trade receivables at 31 December 2020 has considered the impacts of COVID-19 and no material recoverability issues have been identified.

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As disclosed in *note 5: Discontinued operations*, the outcome of the strategic review led to the Board's decision to exclude the following segments from the Group's long-term strategy:

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

These non-core segments were initially recognised and presented as separately identifiable disposal groups and were disclosed as discontinued operations in the Group's statement of comprehensive earnings (refer to *note 6: Segmental report* and *note 5: Discontinued operations*).

Initial recognition

At initial recognition, the disposals were expected to occur within the succeeding 12 months; the assets and liabilities were classified as Held for Sale. The assets and liabilities of the disposal groups were allocated to their cash-generating units (CGUs) in the prior year and were subject to an impairment assessment prior to classification as Held for Sale. The recoverable amounts of all CGUs were assessed as the fair value less cost of disposal (refer to *note 7: Impairments*). On initial recognition, the proceeds from the sale were expected to equal the net carrying amounts. The carrying amounts of some of the assets in relation to the *Construction and Engineering: South Africa and the rest of Africa* and *Manufacturing and Processing* disposal group, exceeded their fair value less cost of disposal after being classified as Held for Sale. An adjustment was recognised to present these assets at their fair value less costs of disposal in the prior year.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Sales finalised in the current year

Construction and Engineering: South Africa and the rest of Africa

Aveng Construction Ground Engineering (GEL)

In June 2020, the Group entered into a binding sale of business agreement with Ground Engineering Proprietary Limited for the sale of GEL as a going concern for R5 million with an effective date of 1 July 2020.

Manufacturing and Processing

Aveng Duraset Alrode

In July 2020, the Group entered into a binding sale of business agreement with Carlmac Steel Proprietary Limited for the sale of Aveng Duraset Alrode as a going concern for R11 million with an effective date of 2 November 2020.

Aveng Duraset Westonaria

In September 2020, the Group entered into a binding sale of business agreement with Azkoyen Trading Proprietary Limited for the sale of Aveng Duraset Westonaria as a going concern for R8,5 million with an effective date of 2 November 2020.

Aveng Infraset-Pietermaritzburg factory

In November 2020, the Group entered into a binding sale of business agreement with Rus Group Proprietary Limited for the sale of Infraset-PMB factory as a going concern for R5 million with an effective date of 1 December 2020.

Sales not finalised in the current period

The Group has determined that unforeseen challenges (including the negative effects of COVID-19 on the sales process) outside the control of management have prevented the execution of the sales of the remaining assets. Due to the dynamic nature of these businesses and the complex environment in which they operate, several of the assets have not been sold by 31 December 2020.

In the six months ended 31 December 2020, there have been numerous expressions of interest, and a number of non-binding offers for CGUs within the disposal groups, however the Group did not receive reasonable offers to purchase all of the remaining CGUs. The delay in the finalisation of the sales were due to events and circumstances beyond the control of management including but not limited to the significant impact of COVID-19 on the ability to obtain the best value for the remaining assets, and the corresponding uncertainty within the market brought about during lockdown.

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Sales not finalised in the current period continued

At 31 December 2020, these assets remain available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets. Management continues to actively market the assets for sale at prices that are reasonable in relation to their current fair value which leads management to conclude that it is highly probable that the sale of the remaining assets will be concluded in the next 12 months.

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

Subsequent measurement

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

Subsequent to initial classification as Held for Sale, the Group remeasured the assets at their fair value less costs of disposal. In the case where the carrying amount exceeded the fair value less costs of disposal, an adjustment was recognised to present these assets at the lower value. In the case where a binding offer had been received by 31 December 2020 for the sale of an asset, the fair value less costs of disposal is determined based on the value of the offer received, less costs required to dispose of the assets.

In the case where the fair value less costs of disposal exceed the carrying amount, an adjustment could be recognised. The adjustment is subject to a limit on the amount of any gain that can be recognised as a result of an increase in fair value less costs to sell before disposal. The maximum increase (and therefore gain) that can be recognised is the cumulative amount of impairment losses recognised in accordance with IFRS 5 and previously in accordance with IAS 36. A fair value adjustment of R415 million was recognised in the *Manufacturing and Processing* segment to reflect the CGU at fair value less cost of disposal.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Following the sale of the businesses within the Construction and Engineering: South Africa and rest of Africa segment, the income and expenditure relating to the historical contracts not transferred as part of these sales are shown as part of continuing operations.

	December 2020 (Reviewed) Rm	December 2019 (Reviewed) Rm	June 2020 (Audited) Rm
Assets Held for Sale	**1 927**	3 057	2 309
Liabilities Held for Sale	**(1 643)**	(2 948)	(2 051)
	284	109	258
Movement during the year			
Opening Balance	**258**	407	407
Adoption of IFRS 16 accounting standard:			
Non-current assets*	**–**	926	926
Non-current liabilities**	**–**	(926)	(926)
Movements in:			
Non-current assets	**9**	(57)	(85)
Current assets	**(217)**	(852)	(1 276)
Non-current liabilities	**38**	177	265
Current liabilities	**(232)**	597	965
Sale of assets Held for Sale	**7**	(163)	(111)
Adjustment to fair value less cost of disposal***	**415**	–	(13)
Transferred from / to:			
Transfer to assets classified as Held for Sale	**–**	–	13
Transfer from assets classified as Held for Sale	**6**	–	93
Net (liabilities) / assets Held for Sale	**284**	109	258

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

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

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

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

As at 31 December 2020, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs to dispose and comprised the following:

31 December 2020	Construction and Engineering: South Africa and the rest of Africa – Disposal group Rm	Manufacturing and Processing – Disposal group Rm	Total Rm
ASSETS			
Non-current assets			
Intangible assets	–	7	7
Property, plant and equipment	–	909	909
Equity-accounted investments	13	–	13
	13	916	929
Current assets			
Inventories	–	661	661
Derivative instruments	–	7	7
Amounts due from contract customers	–	3	3
Trade and other receivables	–	327	327
	–	998	998
TOTAL ASSETS	13	1 914	1 927
LIABILITIES			
Non-current liabilities			
Borrowings and other liabilities	–	609	609
Employee-related payables	–	4	4
	–	613	613
Current liabilities			
Amounts due to contract customers	–	6	6
Borrowings and other liabilities	–	126	126
Employee-related payables	–	15	15
Trade and other payables	–	660	660
Provision for unallocated fair value adjustments	–	223	223
	–	1 030	1 030
TOTAL LIABILITIES	–	1 643	1 643
Net assets Held for Sale	13	271	284

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

As at 31 December 2019, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs to dispose and comprised the following:

31 December 2019	Construction and Engineering: South Africa and the rest of Africa – Disposal group Rm	Manufacturing and Processing – Disposal group Rm	Total Rm
ASSETS			
Non-current assets			
Intangible assets	–	24	24
Property, plant and equipment	34	949	983
Equity-accounted investments*	32	–	32
Infrastructure investments	118	–	118
	184	973	1 157
Current assets			
Inventories	1	1 120	1 121
Derivative instruments	–	4	4
Amounts due from contract customers	116	3	119
Trade and other receivables	51	605	656
	168	1 732	1 900
TOTAL ASSETS	352	2 705	3 057
LIABILITIES			
Non-current liabilities			
Borrowings and other liabilities	–	786	786
Employee-related payables	2	3	5
	2	789	791
Current liabilities			
Amounts due to contract customers	46	7	53
Borrowings and other liabilities	–	69	69
Employee-related payables	25	30	55
Trade and other payables	390	850	1 240
Financial Liabilities	–	6	6
Provision for unallocated fair value adjustments	–	734	734
	461	1 696	2 157
TOTAL LIABILITIES	463	2 485	2 948
Net assets Held for Sale	(111)	220	109

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

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

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

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

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

11. BORROWINGS AND OTHER LIABILITIES

	Notes	December 2020 (Reviewed) Rm	December 2019 (Reviewed) Rm	June 2020 (Audited) Rm
Borrowings and other liabilities comprise:				
Interest bearing borrowings held at amortised cost	11.1	**2 105**	1 945	1 883
Lease liabilities	11.2	**447**	488	497
Total borrowings and other liabilities		**2 552**	2 433	2 380
11.1 Interest bearing borrowings held at amortised cost				
Interest bearing borrowings held at amortised cost comprise:				
Credit and term facilities		**1 985**	1 758	1 708
Asset-backed financing arrangements		**120**	187	175
Total borrowings held at amortised cost		**2 105**	1 945	1 883
Payment profile				
– within one year		**845**	748	893
– between two and five years		**1 260**	1 197	990
		2 105	1 945	1 883
Interest rate structure				
Fixed and variable (interest rates)				
Fixed – long-term		**39**	356	422
Fixed – short-term		**414**	127	72
Variable – long-term		**1 221**	841	568
Variable – short-term		**431**	621	821
		2 105	1 945	1 883

11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Interest bearing borrowings held at amortised cost continued

Description	Terms	Rate of interest	December 2020 (Reviewed) Rm	December 2019 (Reviewed) Rm	June 2020 (Audited) Rm
Credit and term facilities					
Revolving Credit Facility*	Repayable September 2023	1M JIBAR + 4,89%	**589**	550	558
Revolving Credit Facility*	Repayable September 2021	Fixed rate of 13,986%	**334**	299	316
Term facility*	Repayable September 2023	1M JIBAR + 5,02%	**656**	613	623
Term facility*	Repayable June 2021	1M JIBAR + 5,02%	**195**	195	195
Super Senior Liquidity facility*	Repayable June 2022	1M JIBAR + 4,07%	**203**	–	–
Term loan facility denominated in ZAR*	Monthly instalments ending April 2021	Fixed interest rate of 10,58%	**8**	24	16
Working Capital Credit Facility	Repaid monthly as on a revolving facility basis	2,9% plus 0,5% margin	**–**	79	–
Asset-backed financing arrangements					
Lease facility of AUD6 million	Monthly instalments ending in February 2025	Fixed range of 2,99% to 7,60%	**5**	23	24
Lease facility denominated in ZAR	Monthly instalments ending in February 2022	Fixed interest of 8%	**1**	3	2
Hire purchase agreement denominated in ZAR	Monthly instalments ending November 2022	South African prime	**9**	12	10
Lease facility of AUD6 million	Monthly instalments ending in March 2023	Fixed interest rate of 4,60%	**50**	30	73
Hire purchase facility denominated in USD	Monthly instalments ending August 2021	Fixed interest rate of 6,70%	**17**	54	34
Hire purchase agreement denominated in ZAR	Monthly instalments ending April 2021	Fixed interest rate of 12,27%	**2**	7	4
Lease facility of AUD4 million	Monthly instalments ending April 2022	Fixed interest rate of 1,90%	**36**	–	–
Lease facility of AUD12 million	Monthly instalments ending November 2020	Fixed interest rate of 4,60%	**–**	45	25
Hire purchase agreement denominated in ZAR	Monthly instalments ending August 2020	South African prime plus 3,00%	**–**	11	3
Total interest-bearing borrowings			**2 105**	1 945	1 883

** These loans are in terms of an extension letter signed by the SA Lenders on 27 November 2020. Subsequent to the period end, the Fourth Amended and Restated Common Terms Agreement was signed. Refer to note 4: Going Concern and note 17: Events after the reporting period for the details relating to the restructuring and details of the restructured facilities*

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Interest bearing borrowings held at amortised cost continued

Unutilised borrowing facilities

At 31 December 2020, the Group had available R511 million (30 June 2020: R483 million; and 31 December 2019: R274 million) of unutilised borrowing facilities.

Asset-backed financing arrangements

Construction and Engineering: Australasia and Asia

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

The total asset-backed financing facilities amounted to AUD10 million (December 2019: AUD11 million; June 2020: AUD10 million) and is equivalent with a net carrying amount of R91 million (December 2019: R98 million; June 2020: R122 million). These asset-backed financing arrangements were secured by plant and equipment with a net carrying amount of R108 million (December 2019: R82 million; June 2020: R123 million).

Mining

The 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 R29 million (December 2019: R87 million; June 2020: R53 million).

Equipment with a net carrying amount of R115 million (December 2019: R313 million; June 2020: R224 million) has been pledged as security for the facility.

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

	December 2020 (Reviewed) Rm	December 2019 (Reviewed) Rm	June 2020 (Audited) Rm
Asset-backed financing arrangements are payable as follows:			
Minimum lease payments due:			
– within one year	**87**	136	93
– in two to five years	**50**	60	94
Less: future finance charges	**(17)**	(11)	(12)
Present value of minimum lease payments	**120**	185	175

11. BORROWINGS AND OTHER LIABILITIES continued

11.2 Lease liabilities

The table represents only the continuing operations lease liabilities, recognised for the first time under *IFRS 16 Leases*. Refer to *note 10: Assets and liabilities classified as Held for Sale* for disclosure of the disposal groups' lease liabilities classified as Held for Sale.

	December 2020 (Reviewed) Rm	December 2019 (Reviewed) Rm	June 2020 (Audited) Rm
Lease liabilities are payable as follows:			
Minimum lease payments due:			
– within one year	**162**	224	208
– in two to five years	**289**	320	287
– more than five years	**93**	73	106
Less: future finance charges	**(97)**	(129)	(104)
Present value of minimum lease payments	**447**	488	497
Current	**130**	277	174
Non-current	**317**	211	323

12. CONTINGENT LIABILITIES AND ASSETS

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

	December 2020 (Reviewed) Rm	December 2019 (Reviewed) Rm	June 2020 (Audited) Rm
South Africa and rest of Africa			
Guarantees and bonds (Rm)	**609**	1 317	1 018
Parent company guarantees (Rm)	**31**	30	30
	640	1 347	1 048
Australasia and Asia			
Guarantees and bonds (AUDm)	**327**	275	290
Parent company guarantees (AUDm)	**14**	44	22
	341	319	312

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. Provision is made for all liabilities which are expected to materialise and contingent liabilities are disclosed when the outflows are probable.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

13. DISPOSAL OF SUBSIDIARIES

Manufacturing and Processing disposal group

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

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

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

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

* *Amounts less than R1 million*
** *Transaction costs incurred relating to this transaction were expensed.*

13. DISPOSAL OF SUBSIDIARIES continued

Construction and Engineering: South Africa and the rest of Africa

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

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

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

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

* *Amounts less than R1 million*
** *Transaction costs incurred relating to this transaction were expensed.*

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

14. TAXATION

	December 2020 (Reviewed) Rm	December 2019 (Reviewed) Rm	June 2020 (Audited) Rm
Major components of the taxation expense			
Current taxation			
Local income taxation-current period	**(1)**	8	1
Local income taxation-recognised in the current taxation for prior periods	**–**	(110)	14
Foreign income taxation or withholding taxation – current period	**30**	95	49
Foreign income taxation or withholding taxation-recognised in the current taxation for prior periods	**(7)**	59	(4)
	22	52	60
Deferred taxation			
Deferred taxation-current period	**9**	4	71
Deferred taxation-foreign tax rate change	**(3)**	(9)	–
Deferred taxation – arising from prior period adjustments	**2**	1	(62)
	8	(4)	9
	30	48	69

South African income taxation is calculated at 28% (December 2019: 28%; June 2020: 28%) of the taxable income for the interim period ended December 2020. Taxation in other jurisdictions is calculated at the prevailing rates.

15. NON-CASH AND OTHER MOVEMENTS

	December 2020 (Reviewed) Rm	December 2019 (Reviewed) Rm	June 2020 (Audited) Rm
Impairment loss on goodwill, property, plant and equipment and intangible assets	**54**	–	147
Impairment loss on equity-accounted investments	**–**	11	21
Impairment loss on long-term receivables	**45**	–	–
Claims written down	**–**	–	227
Gain on disposal of assets Held for Sale	**(40)**	(54)	(24)
Gain on disposal of subsidiaries	**–**	(10)	(10)
Gain on disposal of property, plant and equipment	**(9)**	(28)	(61)
Fair value adjustment on properties and disposal groups classified as Held for Sale	**(415)**	–	13
Unrealised foreign exchange gains on borrowings and other liabilities	**(2)**	–	(5)
Realised foreign exchange gains	**–**	–	(12)
Movements in foreign currency translation	**115**	(81)	(212)
Derecognition of components included in Property, Plant and Equipment	**81**	44	69
Increase in long-term receivable	**–**	–	(43)
	(171)	(118)	110

16. FAIR VALUE OF ASSETS AND LIABILITIES

The Group measures the following financial instruments at fair value:

- Infrastructure investments
- Forward exchange contracts

The infrastructure investments comprise the following:

- Firefly Investments 238 Proprietary Limited (Firefly)
- Imvelo Concession Company Proprietary Limited (Imvelo)
- Dimopoint Proprietary Limited (Dimopoint)

The methodology, valuation parameters and assumptions for infrastructure investments have remained unchanged since 30 June 2020. For more detail, refer to the Aveng Group audited consolidated annual financial statements 2020 available on the Group's website.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

16. FAIR VALUE OF ASSETS AND LIABILITIES continued

Fair value hierarchy

The table below shows the Group's fair value hierarchy and carrying amounts of assets and liabilities.

	Carrying amounts Rm	Fair value Rm	Valuation reference to observable prices Level 1 Rm	Valuation based on observable inputs Level 2 Rm	Valuation based on unobservable inputs Level 3 Rm
31 December 2020 (Reviewed)					
Assets and liabilities recognised at fair value					
Assets					
Infrastructure investments	**261**	**261**	–	–	261
Forward exchange contracts (FECs) (Held for Sale)	**7**	**7**	–	7	–
Liabilities					
Forward exchange contracts (FECs)	**1**	**1**	–	1	–
31 December 2019 (Reviewed)					
Assets and liabilities recognised at fair value					
Assets					
Infrastructure investments	**142**	**142**	–	–	142
Infrastructure investments (Held for Sale)	**118**	**118**	–	–	118
FECs (Held for Sale)	**4**	**4**	–	4	–
Liabilities					
FECs	**1**	**1**	–	1	–
FECs (Held for Sale)	**6**	**6**	–	6	–
30 June 2020 (Audited)					
Assets recognised at fair value					
Assets recognised at fair value					
Assets					
Infrastructure investments	**259**	**259**	–	–	259
FECs	**10**	**10**	–	10	–
FECs (Held for Sale)	**9**	**9**	–	9	–

16. FAIR VALUE OF ASSETS AND LIABILITIES continued

Fair value hierarchy continued

The Group uses Level 2 valuation techniques to measure foreign exchange contracts and Level 3 valuation techniques to measure infrastructure investments. Valuation techniques used are appropriate in the circumstances and for which sufficient data was available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

There were no transfers between the different levels during the period.

There have been no gains and losses recognised attributable to changes in unrealised gains or losses during the year.

Sensitivity analysis: Financial assets valuations using observable and unobservable inputs

The following table shows the sensitivity of significant unobservable inputs used in measuring the fair value of infrastructure investments:

	Significant unobservable input	Reasonably possible changes to significant unobservable inputs	Potential effect recorded directly in profit and loss Increase Rm	 Decrease Rm
Infrastructure investments				
Risk-adjusted discount rate:				
– Dimopoint Proprietary Limited	**16,0%**	**0,5%**	(4)	4
Classified as Held for Sale				
– Imvelo Concessions Company Proprietary Limited	**17,0%**	**0,5%**	(2)	2
– Firefly Investments 238 Proprietary Limited	**14,8%**	**0,5%**	(2)	2

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2020

17. EVENTS AFTER THE REPORTING PERIOD

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

17.1 Balance sheet restructure and recapitalisation

Post period end and following the favourable shareholders votes on 20 January 2021, authorising the specific issue of shares to settle debt and supporting a fully underwritten rights offer of R300 million by two of Aveng's largest shareholders, the agreements to implement the balance sheet restructure transaction were executed.

On implementation, expected to be completed on or about 19 March 2021, the balance sheet restructure transaction will result in:

- R300 million being raised in terms of a fully co-underwritten rights offer;
- A specific issue of c. R396 million at 5 cents per share to settle debt owing to certain lenders;
- Proceeds of c. R215 million from the rights offer will be utilised to settle c. R680 million of debt and interest owing to certain lenders, at a discount of c. R465 million; and
- The balance from the rights offer will be available to the Group to be used for working capital.

On implementation, the restructure and recapitalisation will result in the debt reducing by c. R1.1 billion and equity increasing by an equivalent amount. Following this transformational event, Aveng believes that the remaining debt is sustainable with a maturity profile of three years.

17.2 Sale of Infraset Swaziland (Pty) Ltd

Subsequent to the reporting date, the Aveng Infraset Swaziland factory that forms part of the Aveng Infraset business, was disposed of to Infracast (Pty) Ltd, a special purpose vehicle, for R10 million subject to conditions precedent. This disposal did not require separate disclosure in terms of the JSE Listings Requirements.

17.3 N2 Mtentu River Bridge project

The Employer made a call on the construction and retention guarantees (the Guarantees) from the Aveng/Strabag Joint Venture. The total value of the bonds, R234 million, (excluding VAT) has been settled with the Employer by the Bond provider. Aveng's 50% share of amounts to R118 million. Aveng has agreed repayment terms with the Guarantee provider and the document to give effect thereto is near completion.

Commentary

SALIENT FEATURES

- Group revenue increased to **R12,9 billion** (December 2019: R11,2 billion) with core revenue increasing by **53%** driven by improved performance at McConnell Dowell
- Significant increase in operating earnings to **R280 million** (December 2019: R14 million) with McConnell Dowell, Moolmans, Trident Steel and Manufacturing all profitable
- R314 million improvement in headline earnings to **R109 million** (December 2019: R205 million headline loss)
- R608 million improvement in operating earnings to R438 million (December 2019: R170 million operating loss)
- **R1,2 billion** improvement in operating free cash flow to **R1,4 billion** (December 2019: R174 million)
- **R1 billion** improvement in net cash position to **R579 million**, excluding lease liabilities (June 2020: R552 million net debt position)
- Increase in work in hand to R27,7 billion from **R26,8 billion**
- Group LTIFR – **0,18**

AVENG LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1944/018119/06)
ISIN: ZAE000111829 SHARE CODE: AEG
("Aveng", "the Company" or "the Group")

RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2020

Positioning for longer-term strategic goals

Aveng continued the positive momentum displayed in the 2020 financial year, despite the ongoing impact of the COVID-19 pandemic. For the first time since December 2014, Aveng has reported headline earnings for the period ended 31 December 2020. Both McConnell Dowell and Moolmans delivered solid revenues, operating earnings and generated positive cash flows. This performance continues to be underpinned by a focus on building long term relationships with clients, resulting in repeat business and a consistent growth in work in hand. Subsequent to the period end, and for the first time since FY2012, McConnell Dowell declared and paid a dividend of AUD5 million.

Non-core businesses reported an operating earnings from an operating loss in the comparative period and were cash generative. Aveng continued to realise value from the disposal of non-core businesses and investments throughout the period.

Response to COVID-19

The unprecedented challenges of COVID-19 remained a risk to the Group with various regions experiencing spikes in infection rates coupled with various government-imposed lockdown restrictions at city, state, province and country levels. The pandemic continued to pose challenges in each operating region:

- Lockdown restrictions were implemented across all Australian states at various times and to different degrees. Victoria was particularly impacted. McConnell Dowell did, however, continue to operate all sites across

Commentary continued

Australia. Government announced a series of significant support/stimulus packages and continues to assist the construction sector by providing favourable payment terms;

- New Zealand and the Pacific Islands had minimal disruptions to operations during the period with the New Zealand government providing support packages. The government continuously monitors and rapidly responds to COVID-19 threats thus requiring an agile response from our operations however, the awarding of new projects has slowed;
- Southeast Asian operations were impacted by restrictions and limitations imposed across all five countries in which we operate. Restrictions on movement between countries continues to pose challenges;
- South Africa experienced a spike in COVID-19 cases in the second quarter of FY21 which resulted in government imposing increased restrictions. South African operations continued with limited disruption post the December break; and
- Sadly, Aveng has lost five colleagues due to COVID-19. The Board and management wish to pass their heartfelt condolences to the family, friends and colleagues of those who succumbed to the disease.

The Group's agile, resilient and diverse business model across customers, geographies, industry sectors and commodities continues to provide risk mitigation in the current circumstances. The Group proactively monitors and manages infection rates, restrictions and lockdowns to protect employees, operations and our financial and liquidity position.

Aveng is monitoring the rollout of the vaccination process in its operating jurisdictions and where appropriate and in line with local protocols, it is engaging with industry bodies to facilitate access to the vaccine for its people.

As reported previously, it is expected that the commercial impact of COVID-19 related matters will continue to impact the business due to the uncertainties posed by the pandemic and the related response by governments and societies around the globe.

Balance sheet restructure and recapitalisation

Post period end and following the favourable shareholders votes on 20 January 2021, authorising the specific issue of shares to settle debt and supporting a fully underwritten rights offer of R300 million by two of Aveng's largest shareholders, the agreements to implement the balance sheet restructure and recapitalisation transaction were executed.

On implementation, expected to be completed on or about 19 March 2021, the balance sheet restructure transaction will result in:

- R300 million being raised in terms of a fully co-underwritten rights offer;
- A specific issue of c. R396 million at 5 cents per share to settle debt owing to certain lenders;
- Proceeds of c. R215 million from the rights offer will be utilised to settle c. R680 million of debt and interest owing to certain lenders, at a discount of c. R465 million; and
- The balance from the rights offer will be available to the Group to be used for working capital.

On implementation, the restructure and recapitalisation will result in the debt reducing by c. R1.1 billion and equity increasing by an equivalent amount. Following this transformational event, Aveng believes that the remaining debt is sustainable with a maturity profile of three years.

Non-core asset disposals

The Group continued its non-core asset disposal process and as at 31 December 2020 had received cumulative cash proceeds of R817 million. The following disposals were concluded during the period:

- GEL, Duraset, Infraset Pietermaritzburg and various properties totalling R49 million. These individual disposals to unrelated parties did not require separate disclosure in terms of the JSE Listings Requirements.

Negotiations are ongoing for the sales of Automation & Control Systems (ACS), Trident Steel and the remainder of Infraset.

Positive momentum maintained on performance of core businesses

McConnell Dowell and Moolmans recorded improved operating earnings and cash generation despite sustained COVID-19 challenges.

McConnell Dowell

McConnell Dowell reported an impressive growth in operating earnings to AUD13 million (December 2019: AUD5,5 million).

The business recorded its highest six-month revenue in five years at AUD712 million (December 2019: AUD461 million), a direct result of the continued growth in the work in hand, notably in Australia. Australia represents 67% of the total McConnell Dowell revenue at 31 December 2020.

Work in hand grew by 11% to AUD2,1 billion at the date of this announcement. This supports the achievement of budgeted revenue for FY21 and provides a strong platform running into FY22 and FY23. The value of preferred tender status is currently AUD1,4 billion, after having converted AUD583 million to work in hand during the period.

McConnell Dowell recorded a 12-month rolling Lost Time Injury Frequency Rate (LTIFR) of 0,07 (target of 0,09) and Total Recordable Injury Frequency Rate (TRIFR) of 0,79 against a target of 1,00.

Moolmans

Moolmans is in the second year of its turnaround plan. The initial objective of restoring profitability has been met and the focus now turns to growing and sustaining profitability. Moolmans recorded revenue of R2,1 billion (December 2019: R2,3 billion) and a further improvement in operating earnings to R132 million (December 2019: R117 million).

During the period, Moolmans has benefitted from the key functional and operational appointments made in the preceding year. Operational and functional discipline has improved, specifically project execution, plant and engineering and commercial management. A renewed focus on improving the work in hand has resulted in the business tendering for contract extensions for existing clients and for new projects for new clients.

Despite the slope failure at Gamsberg in November 2020 (resulting in a section 54 stoppage), the contract reported improved operational and financial results in comparison to prior periods. The section 54 was lifted in January 2021 for all areas with the exception of the South Pit where the slope failure occurred and construction of a ramp to access the pit continues.

Work in hand remained relatively flat at R4,7 billion at 31 December 2020 and supports 98% of budgeted revenue of FY21.

Moolmans recorded a 12-month rolling LTIFR of 0,19 (target of 0,26) and TRIFR of 0,51 against a target of 0,70.

Commentary continued

Non-core businesses

Manufacturing and Processing

This operating segment comprises Trident Steel and Aveng Manufacturing

Trident Steel

As part of the strategic intent to position Trident Steel as a steel service centre business, the tube and merchanting divisions were restructured in the latter part of the FY20 financial year and during the current period. Whilst this resulted in a reduction of revenue for the period to R1,4 billion (December 2019: R2,3 billion), Trident Steel has recorded a substantial increase in operating earnings to R107 million (December 2019: R50 million). Operating free cash flow increased significantly from the comparative period due to increased profitability and the once-off sale of merchanting inventory.

Aveng Manufacturing

This operating group consists of Aveng Automation & Controls Solutions (ACS), Aveng Duraset and Aveng Infraset.

The manufacturing operating group recorded lower revenue of R606 million (December 2019: R823 million) following the disposal of business units. The business units were operationally profitable at R25 million (December 2019: R7 million) and cash generative.

Project Management Office

The project management office continues to manage and implement the significant task of closing out the non-core disposals and ensuring that the Group complies with all statutory, legal, technical, commercial and human resources obligations.

MARKET REVIEW

McConnell Dowell's core market sectors continue to grow driven largely by public sector investments with the majority of opportunities in infrastructure developments supported by government. The Australian market is set to continue its growth trajectory for the financial year. McConnell Dowell is well positioned to take advantage of opportunities in areas of its specialist capabilities.

The New Zealand and Pacific Islands markets have slowed post COVID-19 with delays in the award of new projects, although the New Zealand government has continued with its infrastructure roll out plan.

Opportunities in Southeast Asia were impacted by COVID-19 lockdowns. The region's medium-term to long-term outlook remains promising. However, opportunities continue to be tempered by political uncertainty and the restrictions brought about by COVID-19.

Conditions in the South African mining sector are mixed. While global and domestic opportunities in open cut and underground mining remain promising, the South African market has underperformed relative to its potential due to ongoing policy uncertainty and weak economic conditions which inhibit investment. Moolmans continues to pursue existing and new opportunities in South Africa and more broadly across the African continent.

FINANCIAL PERFORMANCE

Pleasingly, Aveng reported headline earnings of R109 million (December 2019: R205 million loss) for the first time since December 2014, and a net earnings of R438 million (December 2019: R170 million loss). The basic earnings per share was 2,3 cents (December 2019: 0,9 cents loss per share) and the headline earnings per share was

0,6 cents (December 2019: 1,1 cents loss per share).

Statement of comprehensive earnings

Group revenue of R12,9 billion increased by 15% (December 2019: R11,2 billion) despite the impact from COVID-19 and non-core asset disposals. Core business revenue of R10,5 billion makes up 81% of total group revenue (December 2019: 62%).

Net operating earnings increased to R280 million (December 2019: R14 million) following improved performance from all businesses, both core and non-core.

Fair value adjustment on disposal groups classified as Held for Sale of R415 million represents a reversal of a previously recognised impairment to reflect the fair value of a CGU in the *Manufacturing and Processing* segment. The increase ensures that the CGU represents the fair value less costs to sell in line with *IFRS 5 Non-current Assets Held for Sale* and *Discontinued Operations* (*IFRS 5*).

Net finance charges reduced to R122 million excluding *IFRS 16 Leases (IFRS 16)* notional interest of R55 million (December 2019: R149 million excluding notional interest of R68 million). Finance expenses decreased in comparison to prior year due to the profile of debt and lower underlying interest rates. Finance income reduced due to lower cash balances in high interest earning regions.

Statement of financial position

Property, plant and equipment (PPE) decreased by R282 million to R2,9 billion. Included in the amount is continuing operations right-of-use assets amounting to R316 million (June 2020: R439 million) after depreciation.

The Group incurred **capital expenditure**, including non-core assets, of R426 million (December 2019: R383 million), applying R381 million (December 2019: R371 million) to replace and R45 million (December 2019: R12 million) to expand property, plant and equipment. The majority of the amount was spent as follows:

- R75 million at McConnell Dowell, relating to specific projects across the various businesses; and
- R337 million at Moolmans, primarily as a result of investment in existing fleet.

Amounts due from contract customers for the Group increased by R258 million to R2,8 billion (June 2020: R2,5 billion) due to an increase in uncertified claims and variations, offset by an increase in provisions.

Assets Held for Sale decreased by R382 million to R1,9 billion (June 2020: R2,3 billion) mainly due to the sale of Ground Engineering Limited (GEL), Aveng Duraset Westonaria, Aveng Duraset Alrode and Aveng Infraset Pietermaritzburg factory and the realisation of inventory at Trident Steel.

Borrowings and other liabilities, excluding *IFRS 16* lease liabilities, increased by R222 million to R2,1 billion from June 2020, due to the conversion of R400 million of short-term overdrafts to borrowings, of which R200 million was settled in August 2020. Lease liabilities decreased by R50 million to R447 million mainly as a result of repayments, with R130 million classified as current liabilities and R317 million classified as non-current liabilities at 31 December 2020. The discontinued operations lease liabilities amounted to R735 million after considering lease payments and notional interest.

Amounts due to contract customers increased by R554 million to R1,8 billion (June 2020: R1,3 billion) as a result of progress billings received in McConnell Dowell.

Commentary continued

Liabilities Held for Sale decreased by R408 million to R1,6 billion (June 2020: R2,1 billion) due to the movement in working capital associated with non-core assets, the disposal of businesses mentioned above and a fair value adjustment of R415 million in the *Manufacturing and Processing* segment to better align the carrying amount of the CGU at fair value less costs to sell in line with *IFRS 5 Non-current Assets Held for Sale* and *Discontinued Operations* (*IFRS 5*).

Operating free cash flow amounted to an inflow of R1,4 billion (December 2019: R174 million) due to:

- Cash inflow of R623 million (December 2019: R110 million inflow) in McConnell Dowell;
- Cash inflow of R422 million (December 2019: R261 million inflow) at Moolmans;
- Cash outflow of R24 million (December 2019: R400 million outflow) at Construction and Engineering: South Africa;
- Cash inflow of R517 million at Aveng Steel (December 2019: R205 million inflow);
- R49 million of proceeds on disposal of non-core assets;
- Net finance charges of R167 million; and
- Taxation paid of R17 million.

Cash and bank balances (net of bank overdrafts) increased to R2,7 billion (June 2020: R1,3 billion) and the net debt position converted into a net cash position of R132 million (June 2020: net debt position of R1 billion). Excluding the impact of *IFRS 16* net cash position improved to R579 million from a net debt position of R552 million.

FOCUS AREAS

Aveng will continue to focus on:

- The successful implementation of the balance sheet restructure and recapitalisation transaction;
- Drive and improve operational performance in McConnell Dowell and Moolmans;
- Grow work in hand within an acceptable risk profile and margins;
- Navigate COVID-19 challenges through:
  - Protecting both the livelihood and well-being of all employees;
  - Agile responses to the ongoing changing circumstances across all operations;
- The performance and disposal of remaining non-core assets, and
- Phasing out the project management office function.

OUTLOOK

The Group continues to build resilience and is buoyed by its key strategic levers of geographic and commodity diversification, improving operational performance and the firm commitment of leadership and employees.

The balance sheet restructure and recapitalisation transaction provides Aveng with a sustainable capital structure and a platform from which the Group is able to execute its growth strategy.

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.

SJ Flanagan
Group chief executive officer

AH Macartney
Group financial director

Date of release: 23 February 2021

Corporate information

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SJ Flanagan (Group CEO),
AH Macartney (Group FD),
MA Hermanus (Lead independent director)*#,
MJ Kilbride*#, Bridgette Modise*#,
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