Media release

25 September 2018
For immediate release

RESULTS FOR YEAR ENDED 30 JUNE 2018 AND STRATEGIC REVIEW UPDATE

"We have restructured Aveng's balance sheet which provides a solid platform from which to execute our strategic action plan."

Eric Diack, Aveng's Executive Chairman.

Salient features

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

STRATEGIC REVIEW

Over the past few years, Aveng has faced significant challenges, all of which have had a negative impact on the Group's financial performance. In September 2017, the Group was facing a perfect storm, including funding constraints, ongoing losses and a significant impairment of over-valued uncertified revenue claims due to a difficult environment for settlements. A thorough and robust interrogation of all parts of the business was undertaken to ensure a sustainable future for Aveng.

The Board adopted a new and focused strategy for Aveng to be an international infrastructure and resources group operating in selected fast-growing markets, capitalising on its considerable knowledge and experience.

Significant progress has been made with the aim of the strategic action plan being to create a robust and sustainable Group. Since February 2018, implementation of the strategic action plan has focused on:

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

Ensuring a sustainable capital structure

One of the key initiatives in the strategic action plan was to finalise a set of capital market transactions that would ensure a long-term, sustainable capital structure for the Group. This included raising new capital and settling the existing convertible bonds before their July 2019 maturity date.

A significant amount of work has been done since February 2018 to achieve this goal, strengthening Aveng's balance sheet and creating a platform for the Group to implement the strategic action plan.

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

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

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

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

Further, Aveng has concluded a revised Common Terms Agreement (CTA) with its South African lending banks. Through this process, the company negotiated renewed facilities, obtained additional funding of R400 million to improve the liquidity position and extended the funding terms to 2020. These renegotiated terms have removed some of the immediate pressures on liquidity and provided certainty on the availability of ongoing banking facilities.

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

Continued improvement of the quality of Aveng's balance sheet throughout the implementation of the strategic action plan is essential because it provides all our stakeholders with the assurance that they are dealing with a sustainable partner.

The Board of Directors believes that the Aveng Group remains a going concern based on post year-end developments, including the conclusion of the revised CTA, the early redemption of the convertible bond and the successful rights issue, as well as the status of disposals of non-core assets.

Creating liquidity through the sale of non-core assets

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

The intention is to sell these businesses as going concerns and Aveng will remain fully engaged to support the businesses to drive improved performance until new owners are introduced. This approach will ensure a sustainable future for employees, customers and suppliers of these businesses and it will allow Aveng to realise acceptable value. Management obtained independent valuations in support of the fair-value assessments and are confident that they will be able to realise acceptable values for these assets.

In August 2018, Aveng announced that it had successfully sold its Vanderbijlpark and Jet Park properties for a total value of R254 million. Further, there has been significant interest from credible buyers for most of the businesses earmarked for sale, with some early progress on these disposals.

This objective of the strategic action plan remains an overriding priority and it is anticipated that most of the disposals will be completed by June 2019.

Unlocking value from core businesses

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

McConnell Dowell

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

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

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

Moolmans

Moolmans continues to enjoy a strong market position as the pre-eminent open-cut mining contractor. Its track record of operational and financial performance, which has earned

Moolmans the reputation among customers as a reliable partner, and its resilience in a difficult commodity market, has made Moolmans more sustainable than its competitors.

The South African mining sector has been under significant pressure. Moolmans has underperformed for the year, primarily due to poor contract performance in the second half of the year. A comprehensive and focused Group-led turnaround intervention has been implemented and good progress is being made on addressing the key issues. There is an immediate and urgent focus on improving contract performance, renegotiating contract terms and, where necessary, exiting contracts. With the loss-making contracts eliminated, the difficulties experienced by the mining business in the 2018 financial year are not expected to recur and a gradual recovery is expected throughout the following year.

SAFETY

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

Given Aveng's various public roads projects, the company is concerned about the ongoing risk to its employees as a result of unsafe behaviour by public road users. Efforts to address this risk include increasing safety controls on road closures and enhancing employee vigilance during activities inside a road closure or close to public vehicles.

As part of Aveng's focus on continuous improvement in safety, health and environment (SHE) performance and reporting, a change was adopted in FY18 in line with international best practice. The All Injury Frequency Rate (AIFR) has been replaced with Total Recordable Injury Frequency Rate (TRIFR). This indicator includes fatalities, lost-time injuries, restricted workday cases and medical treatment cases but excludes first aid cases, and is calculated using 200 000 man-hours as the baseline for its frequency rate. The TRIFR has shown a solid performance for FY18 with an improvement at 0.91, exceeding the target of 0.98.

FINANCIAL PERFORMANCE

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

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

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

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

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

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

However, these were partially offset by:

- Improved results in McConnell Dowell with a return to profitability, reporting a net operating profit of R103 million compared to an adjusted loss of R129 million in the comparative period
- Aveng Trident Steel returned to profitability on the back of growing demand in the automotive industry coupled with higher steel prices and the continued focus on reducing costs.

An impairment charge of R2,3 billion was mainly recognised against property, plant and equipment, goodwill and intangible assets that were reclassified as held-for-sale, as well as fair value adjustments to non-core assets.

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

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

TWO-YEAR ORDER BOOK

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

At 30 June 2018, McConnell Dowell's two-year order book was AUD 0,8 billion vs AUD1,2 billion in December 2017. Improved project execution and the elimination of zero contribution legacy contracts has resulted in a higher quality order book and there is more confidence that McConnell Dowell will deliver the gross margins embedded in the current order book.

Winning new work continues to be a key focus for McConnell Dowell. Encouragingly, a key aspect of this is the focus on several early client involvement (ECI) projects. In this type of process, clients engage with a preferred contractor to fully develop the scope and costs associated with the project and there is a higher likelihood that this will result in contract awards. Approximately AUD1,25 billion worth of work is being pursued by McConnell Dowell through ECI projects.

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

Aveng Grinaker-LTA's order book decreased by 24% since 31 December 2017. Securing quality work at targeted margins remains a priority for the operating group.

OUTLOOK AND PROSPECTS

The successful capital markets transactions have provided a much-strengthened capital structure and a solid platform from which to advance the strategic action plan to its successful conclusion.

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

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

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

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