Media release

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For immediate release

UPDATE ON STRATEGIC REVIEW AND RESULTS FOR HALF-YEAR ENDED 31 DECEMBER 2017

Salient features

- Strategic review complete and implementation underway
- Revenue increased by 13%, with improved gross margin
- EBIT profit of R94 million compared to R164 million loss in comparative period
- Good performance from McConnell Dowell
- Significant number of legacy claims settled
- Deferred tax impairment of R243 million
- Net loss of R346 million and headline loss of R335 million
- Net debt of R555 million (June 2017: R1 070 million)

Johannesburg, 27 February 2018: Aveng has completed the strategic review announced in September 2017, which involved a very thorough and robust interrogation of all parts of the business.

The review included identifying the 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.

Eric Diack, Executive Chairman and Acting CEO of Aveng, said: “The review, which is supported by the Board, has highlighted that the Aveng business has reached a critical juncture and decisive action is now required to create a sustainable future. We have started the implementation of a comprehensive strategic change plan, which aims to focus the business on being an international infrastructure and resources group operating in selected fast-growing markets, and capitalising on its considerable knowledge and experience in these markets.”

The plan has six pillars:

1. *Simplify: reduce complexity by optimising the Group’s portfolio, focus on growing core operations*
   With the Group’s strong management teams and unique value offerings in McConnell Dowell and Moolmans, it aims to unlock value for stakeholders by delivering attractive returns and creating opportunities for sustainable growth.

2. *Reshape: reshape operating structure in line with smaller, focussed group*
   The Group currently operates a hybrid operating model. A transition to a lean, agile and decentralised organisation structure will empower management, refocus resources to the new

operational strategy and remove bureaucracy to enable enhanced corporate agility and organisational focus.

3. *Grow: improve revenue growth and profitability of core operations*
   Moolmans is a reputable, South African-based, open cut contractor with a solid footprint across Africa. Its focus remains on operational excellence, developing partnerships and leveraging existing relationships. The operating group has implemented a number of initiatives to address current business challenges in order to grow and improve profitability. These initiatives include an ongoing focus on long-term client relationships, continued enhancement of asset life, growth into selected new markets, an increased service and value offering and optimised capital funding models.

   McConnell Dowell, is a well-recognised and respected infrastructure company with the ability to execute complex projects. Its current focus is to position the company for growth in the expanding markets of Australia, Southeast Asia, New Zealand and the Pacific Islands. The business is showing improvement in performance as it implements its turnaround strategy. Good progress has been made closing out the majority of legacy projects and, in the process, the organisation has refocused on customer relationships and operational excellence, which are now key points of differentiation and will enable McConnell Dowell to become a sustainable business.

4. *Dispose: Refocusing and simplifying the Group's portfolio of businesses in an orderly fashion*
   The outcomes of the strategic review have reaffirmed management's intention to ensure that both Aveng Trident Steel and Aveng Grinaker-LTA are acquired by new shareholders who are better positioned to compete successfully in the South African marketplace.

   A further outcome of the strategic review is the decision to exit the Aveng Manufacturing businesses, which will position these individual businesses to compete more effectively.

   These disposals will reduce the Group's overall exposure to bonding and guarantee lines and will result in lower working capital requirements for the Group.

   "Aveng will continue to enhance the efficiency and profitability of these operations before their disposal to ensure that maximum value is achieved. The completion of the disposal process will require flexibility from a timing perspective to be able to fully maximise value," commented Diack.

5. *Deleverage: reduced debt-burden, sustained by core operations*
   The current debt levels within the Group are considered to be unsustainable and need to be deleveraged. The convertible bond creates significant constraints on the Group's capital structure and is a hindrance in the Group's efforts to unlock value for shareholders. It is management's intention to explore options which will allow for the early settlement of all or a portion of the convertible bond.

   This deleveraging, including the settlement of the convertible bond, will be funded through improved operational cashflow, proceeds from the disposal of non-core assets and an appropriate capital market transaction.

6. *Unlock shareholder value: optimising core operations and disposal of non-core assets*
   It is believed that the current valuation of the Group does not reflect the intrinsic value of the underlying operations. Value can be enhanced by consistent financial performance by McConnell Dowell and Moolmans, the disposal of non-core assets, reshaping the operating structure in line with a smaller focussed group and the achievement of a sustainable capital structure.

“We remain firmly of the opinion that these non-core businesses – which all have numerous strengths in terms of their people, their products and service offerings, their assets and markets - will be better positioned in the hands of new shareholders to participate in the rebuilding of South Africa and will have a better chance of building long-term sustainability in the best interests of all stakeholders,” said Diack. “Management will adopt a considered and systematic approach to identifying potential buyers for the non-core assets, while considering Aveng’s transformational objectives.”

The plan will be executed over the next two to three years in three phases:

- ***Immediate:*** (six months)
  Managing liquidity, reducing risk exposures, enhancing operating performance, disposing of non-core assets and the finalisation of a capital market transaction
- ***Transition:*** (12 – 24 months)
  Managing working capital, enhancing predictability of core businesses’ performance, continuing the orderly sale of non-core assets, and focus on settlement of convertible bond
- ***Sustainable:*** (24 – 36 months)
  Growing and sustaining core businesses, extracting synergistic benefits and creating shareholder value.

Safety

Aveng remains fully committed to delivering on its safety vision of *“Home Without Harm, Everyone, Everyday”.* No fatalities occurred during the six months ended 31 December 2017. The all injury frequency rate (AIF) for the period was 2,91. This indicator includes all types of injuries and is calculated using 200,000 man-hours as the baseline for its frequency rate. There is a noticeable improvement in the overall Aveng frequency rates.

“The Aveng Board, executive leadership and management remain committed to an improved safety performance,” said Diack. “Operating groups have launched various campaigns and initiatives to improve the safety performances in the specific high-risk areas, and the effect is visible in the current safety performance improvement.”

Financial performance

Aveng reported a headline loss of R335 million (December 2016: R391 million) and a net loss of R346 million (December 2016: R429 million).

Basic loss per share was 87,4 cents loss per share compared to a 98,8 cents loss per share in the comparative period and headline loss per share decreased to 84,4 cents loss per share (December 2016: 98,5 cents loss per share).

Revenue increased by 13% to R16,1 billion (December 2016: R14,3 billion). “The increase was driven by strong operational performance at McConnell Dowell where revenue grew by an impressive 35%,” continued Diack.

Despite the challenging operating environment, Moolmans’ revenue grew by 24%, whilst revenue in Aveng Grinaker-LTA remained flat. The difficult economic landscape continued to have an adverse impact on revenue growth for the Aveng Manufacturing and Processing operating group. The gross margin for the Group improved to 7,0% from 6,7% in the comparable period.

In addition, Aveng’s net operating earnings increased from a loss of R164 million in December 2016 to a profit of R94 million, due to improved results in McConnell Dowell which reported a net operating profit of R51 million compared to a loss of R47 million in the six months ended December 2016.

The higher earnings were driven by increased revenue growth across the majority of regions and strong project performance in Australia. Moolmans reported R104 million operating profit, despite the operational challenges of projects underway in Burkina Faso and Botswana; and Aveng Manufacturing reported weaker results against the comparable period, mainly driven by a retraction in underground mining activity, rail contract work and demand for infrastructure products.

Furthermore, Aveng Grinaker-LTA reported an increased loss of R212 million, compared to a loss of R62 million for the comparable period. The weaker results were largely due to project underperformance on major contracts in the Aveng Grinaker-LTA Civil Engineering business unit.

The once-off Genrec award of a R243 million (including interest of R118 million) had a positive impact on net operating earnings following the release of the previously raised provision.

The Group's two-year order book amounted to R25,1 billion at 31 December 2017, decreasing by 16% from the R29,9 billion reported at 30 June 2017. This includes a 21% decrease in AUD terms in McConnell Dowell's order book, translating into a 24% decrease in Rand terms. The Moolmans order book decreased by 14% or R1,0 billion, in line with ramp-up of contracts. Aveng Grinaker-LTA's order book decreased by 9%.

"Securing quality work at targeted margins remains a priority," commented Diack.

The geographic split of the order book at 31 December 2017 was 46% Australasia and Asia, 46% South Africa and 8% other.

"The potential order book is looking promising with a number of near orders in the Moolmans and McConnell Dowell pipelines," said Diack.

A number of new projects were awarded in the period under review:

- McConnell Dowell was awarded the Abbotts Road level crossing removal project as part of the Western Programme Alliance in Australia; Public Transport Projects Alliance, Department of Planning, Transport and Infrastructure in Australia; ECI contract for Kidston Pumped Storage Hydro Project in Australia; Lyttelton Harbour Wastewater Project, Pipeline Diamond Harbour/Governors Bay in New Zealand; Te Mato Vai, Cook Islands Government; New Zealand Pago Airport Apron – Phase 1 in American Samoa; Pago Pago Runway Overlay in American Samoa; Sembcorp Tunnel in Southeast Asia, and HMAS Stirling BU1 & CEPS2, Built Environs in Australia
- Moolmans was awarded an extension on the Klipbankfontein iron ore project
- Aveng Grinaker-LTA has been awarded various mechanical & electrical maintenance contracts in KwaZulu-Natal and the Western Cape, Nongoma TVET College Campus (KZN), Aspen extensions (EC), and UCT GSB lecture theatre.

Market review

The overall construction industry in Australia, New Zealand and Asia Pacific remains positive and active across all operating regions with strong opportunities in infrastructure development, primarily driven by population growth and urbanisation. Despite the increased activity in the construction industry, government focus remains on the development of transport infrastructure, energy and utilities facilities. The construction industry across Southeast Asia is expected to continue to experience strong growth, with rapid urbanisation and infrastructure being a key priority of many governments in the regions. These changes are contributing to the development and expansion of inter-city rail projects, new airports and improvements to water and sewerage facilities. There is strong competition in all of these markets.

“The mining industry is cautiously optimistic, with mining companies looking to increase output and make new investments in assets,” said Diack. “The changing political environment in South Africa and the current rally in commodity prices provide opportunities for Moolmans.”

Full operational review available in the SENS results announcement on www.aveng.co.za

Outlook and prospects

The markets serviced by McConnell Dowell are expected to continue to offer growth opportunities with the continued roll-out of large- and medium-sized projects in the major Australian cities. In Southeast Asia, opportunities exist in infrastructure in Singapore, Malaysia, Thailand, Indonesia and the Philippines. Government investment in large scale transport and water projects will fuel growth in the New Zealand market.

Domestically, the outlook for the infrastructure market remains subdued with limited visibility on large scale projects. However, recent changes in the political environment have led to an improved sentiment in South Africa. There are opportunities to increase exports for the manufacturing operations.

The improved contract mining environment and some notable contract wins place the Moolmans operating group in a strong position to pursue its longer-term growth strategy in selected international markets.

Furthermore, the focus will remain on optimisation efforts in Aveng Steel to deliver a break-even result in the current depressed market conditions, which are expected to persist.

“Our immediate priority will be the implementation of the strategic plan, with non-core assets identified and a disposal process underway,” said Diack. “We have also begun work on a potential capital market transaction and further details will be provided at the appropriate time.”

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