Summarised audited consolidated annual financial statements for the year ended 30 June 2017

AVENG
Leaders in infrastructure

Salient features – financial performance

for the period ended 30 June 2017

Revenue

R23,4 billion

Decrease mainly due to QCLNG award and uncertified revenue write-down of R5,1 billion from R33,8 billion at June 2016

Claims, uncertified revenue and other write-downs – non-cash impact

R5,1 billion

Relating to QCLNG award and uncertified revenue and other claims

South African government settlement

R165 million

R21,25 million payment per annum for 12 years

Operating costs

R503 million (18%)

Decrease from R2,8 billion at June 2016

Net operating loss

R5,4 billion

Decrease from R146 million earnings at June 2016

Headline loss

R6,4 billion

Decrease from R299 million at June 2016

Operating free cash flow

R308 million outflow

Improvement from R1 125 million outflow at June 2016

Loss per share

1 690,6 cents

Decrease from 25,4 cents at June 2016

Headline loss per share

1 625,3 cents

Decrease from 75,2 cents at June 2016

Two-year order book

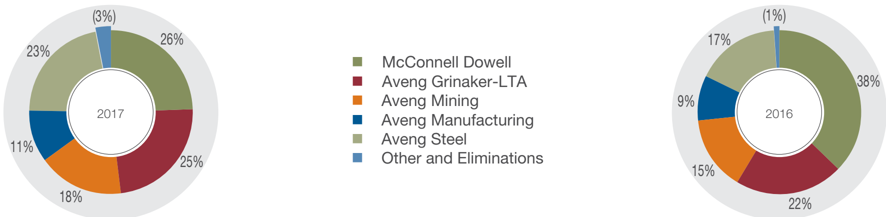
R29,9 billion

Improvement from R27,7 billion at December 2016

Net operating earnings / (loss) – segmental analysis

	FY2017 Rm	FY2016 Rm	Change %
South Africa and rest of Africa	**(392)**	(148)	>(100)
Aveng Grinaker-LTA	**(399)**	(342)	(17)
Aveng Capital Partners	**7**	194	(96)
Australasia and Asia	**(4 370)**	14	>(100)
Total Construction and Engineering	**(4 762)**	(134)	>(100)
Mining	**219**	276	(21)
Manufacturing and Processing	**(3)**	(70)	96
Aveng Steel	**50**	(166)	>100
Aveng Manufacturing	**(53)**	96	>(100)
Other and Eliminations	**(849)**	74	>(100)
Net operating (loss) / earnings	**(5 395)**	146	>(100)
Loss attributable to equity-holders of the parent	**(6 708)**	(101)	>(100)
Headline loss	**(6 449)**	(299)	>(100)

Revenue per operating group



Two-year order book per operating group

Summarised statement of financial position

as at 30 June 2017

	Notes	2017 Rm	2016 Rm
ASSETS			
Non-current assets			
Goodwill arising on consolidation		**342**	342
Intangible assets		**271**	325
Property, plant and equipment		**4 611**	4 843
Equity-accounted investments		**334**	100
Infrastructure investments		**265**	177
Deferred taxation	9	**1 290**	1 858
Amounts due from contract customers	10	**756**	1 417
		7 869	9 062
Current assets			
Inventories		**2 085**	2 211
Derivative instruments		**2**	20
Amounts due from contract customers	10	**3 712**	8 047
Trade and other receivables		**1 840**	2 058
Taxation receivable		**61**	–
Cash and bank balances		**1 996**	2 450
		9 696	14 786
Non-current assets held-for-sale		**122**	1 484
TOTAL ASSETS		**17 687**	25 332
EQUITY AND LIABILITIES			
Equity			
Share capital and share premium		**2 009**	2 009
Other reserves		**1 060**	1 821
Retained earnings		**2 981**	9 689
Equity attributable to equity-holders of parent		**6 050**	13 519
Non-controlling interest		**8**	37
Total equity		**6 058**	13 556
Liabilities			
Non-current liabilities			
Deferred taxation	9	**319**	266
Borrowings and other liabilities	11	**1 945**	1 770
Payables other than contract-related	12	**133**	–
Employee-related payables		**312**	379
		2 709	2 415
Current liabilities			
Amounts due to contract customers	10	**1 351**	1 322
Borrowings and other liabilities	11	**1 121**	1 214
Payables other than contract-related	12	**21**	–
Employee-related payables		**501**	559
Derivative instruments		**17**	27
Trade and other payables		**5 909**	5 886
Taxation payable		**–**	106
		8 920	9 114
Non-current liabilities held-for-sale		**–**	247
TOTAL LIABILITIES		**11 629**	11 776
TOTAL EQUITY AND LIABILITIES		**17 687**	25 332

Summarised statement of comprehensive earnings

for the year ended 30 June 2017

	Notes	**2017 Rm**	2016 Rm
Revenue		**23 456**	33 755
Cost of sales		**(26 591)**	(31 260)
Gross earnings		**(3 135)**	2 495
Other earnings		**206**	591
Operating expenses		**(2 305)**	(2 808)
Earnings / (loss) from equity-accounted investments		**4**	(132)
Operating (loss) / earnings		**(5 230)**	146
South African government settlement		**(165)**	–
Net operating (loss) / earnings		**(5 395)**	146
Impairment / loss on derecognition of property, plant and equipment and intangible assets	7	**(278)**	(333)
Profit on sale of property, plant and equipment		**4**	592
(Loss) / earnings before financing transactions		**(5 669)**	405
Finance earnings		**198**	211
Interest on convertible bonds		**(237)**	(225)
Other finance expenses		**(405)**	(327)
(Loss) / earnings before taxation		**(6 113)**	64
Taxation	13	**(626)**	(129)
Loss for the period		**(6 739)**	(65)
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		**(773)**	786
Other comprehensive (loss) / earnings for the period, net of taxation		**(773)**	786
Total comprehensive (loss) / earnings for the period		**(7 512)**	721
Total comprehensive (loss) / earnings for the period attributable to:			
Equity-holders of the parent		**(7 481)**	676
Non-controlling interest		**(31)**	45
		(7 512)	721
(Loss) / earnings for the period attributable to:			
Equity-holders of the parent		**(6 708)**	(101)
Non-controlling interest		**(31)**	36
		(6 739)	(65)
Other comprehensive earnings for the period, net of taxation			
Equity-holders of the parent		**(773)**	777
Non-controlling interest		**–**	9
		(773)	786
Results per share (cents)			
Loss – basic		**(1 690,6)**	(25,4)
Loss – diluted		**(1 668,2)**	(25,1)
Number of shares (millions)			
In issue		**416,7**	416,7
Weighted average		**396,8**	397,4
Diluted weighted average		**402,1**	402,1

EBITDA for the Group, being net operating earnings before interest, tax, depreciation and amortisation is R (4 740) million (June 2016: R969 million).

Summarised statement of changes in equity

for the year ended 30 June 2017

	Share capital Rm	Share premium Rm	Total share capital and premium Rm	Foreign currency trans-lation reserve Rm
Balance at 1 July 2015	20	2 003	2 023	757
Loss for the period	–	–	–	–
Other comprehensive earnings for the period (net of taxation)	–	–	–	777
Total comprehensive earnings for the period	–	–	–	777
Purchase of treasury shares	–	(23)	(23)	–
Equity-settled share-based payment release	–	9	9	–
Equity-settled share-based payment charge	–	–	–	–
Transfer of convertible bond option to convertible				
Recognition of deferred tax on convertible bond	–	–	–	–
Decrease in equity investment	–	–	–	–
Dividends paid	–	–	–	–
Total contributions and distributions recognised	–	(14)	(14)	–
Balance at 1 July 2016	**20**	**1 989**	**2 009**	**1 534**
Loss for the period	**–**	**–**	**–**	**–**
Other comprehensive loss for the period (net of taxation)	**–**	**–**	**–**	**(773)**
Total comprehensive loss for the period	**–**	**–**	**–**	**(773)**
Equity-settled share-based payment charge	**–**	**–**	**–**	**–**
Decrease in equity investment	**–**	**–**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**
Total contribution and distributions recognised	**–**	**–**	**–**	**–**
Balance at 30 June 2017	**20**	**1 989**	**2 009**	**761**

	Equity-settled share-based payment reserve Rm	Convertible bond equity reserve Rm	Total other reserves Rm	Retained earnings Rm	Total attributable to equity-holders of the parent Rm	Non-controlling interest Rm	Total equity Rm
	15	390	1 162	9 790	12 975	23	12 998
	–	–	–	(101)	(101)	36	(65)
	–	–	777	–	777	9	786
	–	–	777	(101)	676	45	721
	–	–	–	–	(23)	–	(23)
	(9)	–	(9)	–	–	–	–
	13	–	13	–	13	–	13
	–	(122)	(122)	–	(122)	–	(122)
	–	–	–	–	–	(29)	(29)
	–	–	–	–	–	(2)	(2)
	4	(122)	(118)	–	(132)	(31)	(163)
	19	**268**	**1 821**	**9 689**	**13 519**	**37**	**13 556**
	–	**–**	**–**	**(6 708)**	**(6 708)**	**(31)**	**(6 739)**
	–	**–**	**(773)**	**–**	**(773)**	**–**	**(773)**
	–	**–**	**(773)**	**(6 708)**	**(7 481)**	**(31)**	**(7 512)**
	12	**–**	**12**	**–**	**12**	**–**	**12**
	–	**–**	**–**	**–**	**–**	**5**	**5**
	–	**–**	**–**	**–**	**–**	**(3)**	**(3)**
	12	**–**	**12**	**–**	**12**	**2**	**14**
	31	**268**	**1 060**	**2 981**	**6 050**	**8**	**6 058**

Summarised statement of cash flows

for the year ended 30 June 2017

	Notes	**2017 Rm**	2016 Rm
Operating activities			
Cash (utilised) / retained from operations		**(5 681)**	529
Non-cash and other movements	14	**4 490**	(403)
Cash (utilised) / retained from operations after non-cash movements		**(1 191)**	126
Depreciation		**627**	793
Amortisation		**28**	30
Cash (utilised) / generated by operations		**(536)**	949
Changes in working capital:			
Decrease in inventories		**163**	150
Decrease in amounts due from contract customers		**27**	825
Decrease in trade and other receivables		**198**	206
Increase / (decrease) in amounts due to contract customers		**29**	(1 240)
Increase / (decrease) in trade and other payables		**28**	(782)
QCLNG advance repayment (trade and other payables)		**–**	(1 072)
Increase in derivative instruments		**8**	46
Movements in held-for-sale assets		**(106)**	–
Increase / (decrease) in payables other than contract-related		**144**	(102)
Decrease in employee-related payables		**(79)**	(254)
Total changes in working capital		**412**	(2 223)
Cash utilised by operating activities		**(124)**	(1 274)
Finance expenses paid		**(531)**	(458)
Finance earnings received		**215**	214
Taxation paid		**(182)**	(316)
Cash outflow from operating activities		**(622)**	(1 834)
Investing activities			
Acquisition of property, plant and equipment – expansion		**(135)**	(175)
Acquisition of property, plant and equipment – replacement		**(793)**	(319)
Proceeds on disposal of property, plant and equipment		**315**	161
Proceeds on disposal of other assets		**104**	–
Proceeds on disposal of ACP assets		**821**	–
Net proceeds on disposal of Steeledale assets		**50**	–
Proceeds on disposal of properties		**–**	1 127
Acquisition of intangible assets – expansion		**–**	(12)
Acquisition of intangible assets – replacement		**(27)**	(4)
Capital expenditure net of proceeds on disposal		**335**	778

	2017 Rm	2016 Rm
Loans advanced to equity-accounted investments net of dividends received	**(27)**	(63)
Increase in equity-accounted investments	**(11)**	–
Net loans advanced / (repaid) to infrastructure investment companies	**9**	(13)
Dividend earnings	**8**	7
Cash inflow from investing activities	**314**	709
Operating free cash outflow	**(308)**	(1 125)
Financing activities with equity-holders		
Shares repurchased	**–**	(23)
Loans advanced / (repaid) by non-controlling interest	**5**	(20)
Dividends paid	**(3)**	(2)
Net (repayment of) / proceeds from borrowings	**(25)**	429
Net decrease in cash and bank balances before foreign exchange movements	**(331)**	(741)
Foreign exchange movements on cash and bank balances	**(123)**	315
Cash and bank balances at the beginning of the period	**2 450**	2 856
Cash related to assets held-for-sale	**–**	20
Total cash and bank balances at the end of the period	**1 996**	2 450
Borrowings excluding bank overdrafts	**3 066**	2 984
Net cash position	**(1 070)**	(534)

Summarised accounting policies

for the year ended 30 June 2017

1. CORPORATE INFORMATION

The summarised audited consolidated financial statements ("results") of Aveng Limited (the "Company") and its subsidiaries (the "Group") for the period ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 22 September 2017.

Nature of business

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

2. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of preparation

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

These summarised audited consolidated financial statements are presented in South African Rand ("ZAR") and all values are rounded to the nearest million ("Rm") except where otherwise indicated. The summarised audited consolidated financial statements are prepared in accordance with IAS 34 *Interim Financial Statements* and the Listings Requirements of the Johannesburg Stock Exchange Limited ("JSE"). The accounting policies adopted are consistent with those of the previous year as well as the Group's interim results as at 31 December 2016, except as disclosed in note 3: *New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications*.

The summarised audited consolidated financial results do not include all the information and disclosures required in the consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements as at 30 June 2017 that are available on the Company's website, www.aveng.co.za.

The Company's integrated report for the year ended 30 June 2017 will be available by 23 October 2017.

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

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

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

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

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED, CHANGES IN ACCOUNTING POLICIES AND OTHER RECLASSIFICATIONS

As part of the Group's financial reporting improvement initiatives, the structure, format and presentation of disclosures in the financial statements were reviewed. This resulted in the reallocation of certain comparative amounts. This initiative is an ongoing programme targeting the most appropriate disclosure and presentation practices to best serve the interests of the Group's stakeholders based on interaction with them during the period.

The resulting reallocations had no impact on the earnings of the Group and as such the reallocations are regarded as not having had a qualitatively significant effect on the information presented.

The **Africa Construction** business included in the Construction and Engineering: South Africa and rest of Africa segment has been reallocated to Other and Eliminations segment.

	Balance as previously reported Rm	Africa Construction reallocation Rm	**Restated balance Rm**
Segmental report as at 30 June 2016			
Total assets			
Construction and Engineering: South Africa and rest of Africa	3 466	(15)	**3 451**
Construction and Engineering: Australasia and Asia	10 699	–	**10 699**
Mining	3 952	–	**3 952**
Manufacturing and Processing	5 470	–	**5 470**
Other and Eliminations	1 745	15	**1 760**
	25 332	–	**25 332**
Total liabilities			
Construction and Engineering: South Africa and rest of Africa	2 022	22	**2 044**
Construction and Engineering: Australasia and Asia	4 410	–	**4 410**
Mining	1 425	–	**1 425**
Manufacturing and Processing	2 162	–	**2 162**
Other and Eliminations	1 757	(22)	**1 735**
	11 776	–	**11 776**

Summarised accounting policies continued

for the year ended 30 June 2017

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED, CHANGES IN ACCOUNTING POLICIES AND OTHER RECLASSIFICATIONS continued

	Balance as previously reported Rm	Africa business Net operating earnings / (loss) Rm	**Restated balance Rm**
Statement of comprehensive earnings			
Construction and Engineering: South Africa and rest of Africa	(187)	39	**(148)**
Construction and Engineering: Australasia and Asia	14	–	**14**
Mining	276	–	**276**
Manufacturing and Processing	(70)	–	**(70)**
Other and Eliminations	113	(39)	**74**
	146	–	**146**

4. SIGNIFICANT CHANGE IN ESTIMATES

The Group continuously makes estimates and assumptions, particularly with regard to construction contract profit taking, onerous loss provisions, arbitrations and claims.

These estimates and judgements are evaluated and are based on historic experience and other factors, including expectations of future events. These estimates may differ to the actual results.

In continuously assessing its recognised uncertified revenue position, the progress on the various outstanding claims and project performance in the context of current performance, the Group approved a write-down of a number of these claims during the period.

The protracted arbitration process with regards to the QCLNG claim has been finalised and an award outcome provided that McConnell Dowell was entitled to receive compensation from the customer. The award of AUD50,5 million (R508 million) was however less than the amount recognised as a receivable, resulting in a write-down of AUD235 million (R2,4 billion).

In assessing the estimates relating to long-outstanding uncertified revenue and claims, the Board has decided to write-down long-outstanding uncertified revenue and claims amounting to R2,7 billion, this has resulted in reduced revenue for the period. The write-down of the uncertified revenue and claims had an impact on the recoverability of the deferred tax asset resulting in a derecognition of R531 million.

4. SIGNIFICANT CHANGE IN ESTIMATE continued

The following factors guided the decision to write-down the uncertified revenue and claims:

- Certain unfavourable claim settlement awards most notably the recent QCLNG award, which realised substantially less than the carrying value, as well as the previously reported Kenmare Resources and Mokolo Crocodile Water Augmentation awards in South Africa.
- The current economic climate has resulted in an ever-increasing and protracted litigious environment, and costly process in bringing long-outstanding claims to commercial conclusion
- The increasing complexity of the claims and the associated commercial challenges
- The increasing limitation such a process has placed on management's ability and flexibility to balance the value of commercial settlements with the associated costs, business disruptions, client relationships and impact on the Group's reputation.

5. GOING CONCERN AND LIQUIDITY

As detailed in note 2 and note 17 to the financial statements, in determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The directors have considered these plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements.

In the 2017 financial year, the Company reported a loss after tax of R6,7 billion as a result of impairments, uncertified revenue and claims written-down and weak trading conditions in the market.

As a result of these losses, and continued difficult trading conditions in the wider industry, the Company's available cash resources in the foreseeable future have been negatively impacted. The Company continues to focus on improving operational efficiencies and reducing the overhead cost base across all businesses. A number of key initiatives have been implemented by the Company which include:

- 92% secured order book for the next 12 months
- Closing out loss-making projects
- Closing out contract claims positions
- Completion of optimisation processes
- Continued implementation of the Profit Improvement Programme at Aveng Manufacturing
- Disposal of non-core assets.

Notes to the summarised consolidated financial statements

for the year ended 30 June 2017

5. GOING CONCERN AND LIQUIDITY continued

At the date of the statement of financial position, the Company had R1,4 billion in unutilised borrowing facilities and R2,0 billion in cash. Management has prepared a budget for the 2018 financial year and the following two years, as well as cash flow forecasts covering a minimum of 12 months from the date of these financial statements. Based on these forecasts and plans that are being implemented by management, these indicate that the Company will have sufficient cash resources for the foreseeable future.

Following the year-end, the Company re-negotiated its borrowings and operational and working capital funding positions with its major funding banks. These major funding banks have indicated that they remain supportive of the Group, and management believe that these facilities will provide adequate financial resources to enable the Group to meet its obligations over the next twelve months and beyond.

The directors have considered all of the above, including detailed consideration of all plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements, and that sufficient liquidity will be available to support the ongoing operations of the Company.

6. SEGMENTAL REPORT

The Group has determined four reportable segments that are largely organised and managed separately according to the nature of products and services provided.

These segments are components of the Group:

- 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.

6. SEGMENTAL REPORT continued

The Group's reportable segments are categorised as follows:

6.1 Construction and Engineering

6.1.1 Construction and Engineering: South Africa and rest of Africa

This segment includes: Aveng Grinaker-LTA and Aveng Capital Partners ("ACP").

Aveng Grinaker-LTA is divided into the following business units: Aveng Grinaker-LTA Building and Coastal, Aveng Grinaker-LTA Civil Engineering (including Rand Roads and GEL), Aveng Grinaker-LTA Mechanical & Electrical and Aveng Water.

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

6.1.2 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 Environ, Southeast Asia and Middle East.

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

6.2 Mining

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

6.3 Manufacturing and Processing

This segment comprises Aveng Manufacturing and Aveng Steel.

The revenues from this segment comprise the supply of products, services and solutions to the mining, construction, Oil & Gas, water, power and rail sectors across the Group's value chain locally and internationally.

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

Aveng Steel business units include: Aveng Trident Steel and Aveng Steeledale (70% equity stake sold effective 1 January 2017).

6.4 Other and Eliminations

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

6. SEGMENTAL REPORT continued

Statement of financial position

	Construction and Engineering: South Africa and rest of Africa			Construction and Engineering: Australasia and Asia		
	2017 Rm	2016 Rm	%	**2017 Rm**	2016 Rm	%
ASSETS						
Goodwill arising on consolidation	**–**	–	–	**100**	100	–
Intangible assets	**–**	–	–	**–**	–	–
Property, plant and equipment	**398**	433	(8,1)	**602**	805	(25,2)
Equity-accounted investments	**(40)**	75	>(100,0)	**52**	56	(7,1)
Infrastructure investments	**123**	49	>100,0	**–**	–	–
Deferred taxation	**143**	79	81,0	**551**	940	(41,4)
Derivative instruments	**–**	–	–	**–**	–	–
Amounts due from contract customers	**876**	1 169	(25,1)	**3 029**	7 167	(57,7)
Inventories	**40**	9	>100,0	**9**	10	(10,0)
Trade and other receivables	**112**	243	(53,9)	**86**	96	(10,4)
Taxation receivable	**12**	–	100,0	**10**	–	100,0
Cash and bank balances	**237**	534	(55,6)	**1 237**	1 441	(14,2)
Non-current assets held-for-sale	**4**	860	(99,5)	**–**	84	(100,0)
Total assets	**1 905**	3 451	(44,8)	**5 676**	10 699	(47,9)
LIABILITIES						
Deferred taxation	**–**	149	(100,0)	**–**	104	(100,0)
Borrowings and other liabilities	**–**	–	–	**921**	905	1,8
Payables other than contract-related	**–**	–	–	**–**	–	–
Employee-related payables	**173**	200	(13,5)	**298**	372	(19,9)
Derivative instruments	**–**	–	–	**–**	–	–
Trade and other payables	**966**	1 240	(22,1)	**2 304**	2 209	4,3
Amounts due to contract customers	**394**	435	(9,4)	**854**	753	13,4
Taxation payable	**–**	20	(100,0)	**–**	67	(100,0)
Non-current liabilities held-for-sale	**–**	–	–	**–**	–	–
Total liabilities	**1 533**	2 044	(25,0)	**4 377**	4 410	(0,7)

Mining 2017 Rm	Mining 2016 Rm	Mining %	Manufacturing and Processing 2017 Rm	Manufacturing and Processing 2016 Rm	Manufacturing and Processing %	Other and Eliminations 2017 Rm	Other and Eliminations 2016 Rm	Other and Eliminations %	Total 2017 Rm	Total 2016 Rm	Total %
–	–	–	**10**	10	–	**232**	232	–	**342**	342	–
28	20	40,0	**95**	142	(33,1)	**148**	163	(9,2)	**271**	325	(16,6)
2 539	2 294	10,7	**766**	976	(21,5)	**306**	335	(8,7)	**4 611**	4 843	(4,8)
4	4	–	**(1)**	–	(100,0)	**319**	(35)	>100,0	**334**	100	>100,0
–	–	–	**–**	–	–	**142**	128	10,9	**265**	177	49,7
47	129	(63,6)	**19**	(74)	>100,0	**530**	784	(32,4)	**1 290**	1 858	(30,6)
2	19	(89,5)	**–**	1	(100,0)	**–**	–	–	**2**	20	(90,0)
764	675	13,2	**86**	223	(61,4)	**(287)**	230	>(100,0)	**4 468**	9 464	(52,8)
211	244	(13,5)	**1 825**	1 949	(6,4)	**–**	(1)	100,0	**2 085**	2 211	(5,7)
93	115	(19,1)	**1 413**	1 405	0,6	**136**	199	(31,7)	**1 840**	2 058	(10,6)
25	–	100,0	**(1)**	–	(100,0)	**15**	–	100,0	**61**	–	100,0
410	452	(9,3)	**505**	424	19,1	**(393)**	(401)	2,0	**1 996**	2 450	(18,5)
–	–	–	**–**	414	(100,0)	**118**	126	(6,3)	**122**	1 484	(91,8)
4 123	3 952	4,3	**4 717**	5 470	(13,8)	**1 266**	1 760	(28,1)	**17 687**	25 332	(30,2)
184	257	(28,4)	**2**	5	(60,0)	**133**	(249)	>100,0	**319**	266	19,9
317	340	(6,8)	**4**	7	(42,9)	**1 824**	1 732	5,3	**3 066**	2 984	2,7
–	–	–	**–**	–	–	**154**	–	100,0	**154**	–	100,0
187	217	(13,8)	**75**	95	(21,1)	**80**	54	48,1	**813**	938	(13,3)
–	–	–	**17**	27	(37,0)	**–**	–	–	**17**	27	(37,0)
677	528	28,2	**1 757**	1 720	2,2	**205**	189	8,5	**5 909**	5 886	0,4
85	70	21,4	**1**	47	(97,9)	**17**	17	–	**1 351**	1 322	2,2
–	13	(100,0)	**–**	(2)	100,0	**–**	8	(100,0)	**–**	106	(100,0)
–	–	–	**–**	263	(100,0)	**–**	(16)	100,0	**–**	247	(100,0)
1 450	1 425	1,8	**1 856**	2 162	(14,2)	**2 413**	1 735	39,1	**11 629**	11 776	(1,2)

6. SEGMENTAL REPORT continued

Statement of comprehensive earnings

	Construction and Engineering: South Africa and rest of Africa			Construction and Engineering: Australasia and Asia		
	2017 Rm	2016 Rm	%	**2017 Rm**	2016 Rm	%
Gross revenue	**5 876**	7 344	(20,0)	**6 183**	12 828	(51,8)
Cost of sales	**(5 843)**	(7 117)	17,9	**(9 767)**	(11 737)	16,8
Gross earnings	**33**	227	(85,5)	**(3 584)**	1 091	>(100,0)
Other earnings	**60**	315	(81,0)	**9**	18	(50,0)
Operating expenses	**(481)**	(632)	23,9	**(810)**	(1 022)	20,7
Earnings from equity-accounted investments	**(4)**	(58)	93,1	**15**	(73)	>100,0
Net operating (loss) / earnings	**(392)**	(148)	>(100,0)	**(4 370)**	14	>(100,0)
South African government settlement	**–**	–	–	**–**	–	–
Net operating (loss) / earnings	**(392)**	(148)	>(100,0)	**(4 370)**	14	>(100,0)
Impairment / loss on derecognition of property, plant and equipment and intangible assets	**33**	–	100,0	**–**	–	–
Profit on sale of property, plant and equipment	**–**	–	–	**–**	–	–
(Loss) / earnings before financing transaction	**(359)**	(148)	>(100,0)	**(4 370)**	14	>(100,0)
Net finance earnings / (expenses)	**14**	35	(60,0)	**(179)**	(109)	(64,2)
(Loss) / earnings before taxation	**(345)**	(113)	>(100,0)	**(4 549)**	(95)	>(100,0)
Taxation	**93**	(90)	>100,0	**(209)**	3	>(100,0)
(Loss) / earnings for the period	**(252)**	(203)	(24,1)	**(4 758)**	(92)	>(100,0)
Capital expenditure	**80**	42	90,5	**168**	150	12,0
Depreciation	**(69)**	(75)	8,0	**(175)**	(248)	29,4
Amortisation	**–**	(1)	100,0	**–**	–	–
(Loss) / earnings before interest, taxation, depreciation and amortisation (EBITDA)	**(323)**	(72)	>(100,0)	**(4 195)**	262	>(100,0)

Mining			Manufacturing and Processing			Other and Eliminations			Total		
2017 Rm	2016 Rm	%	**2017 Rm**	2016 Rm	%	**2017 Rm**	2016 Rm	%	**2017 Rm**	2016 Rm	%
4 184	5 026	(16,8)	**7 936**	8 794	(9,8)	**(723)**	(237)	>(100,0)	**23 456**	33 755	(30,5)
(3 774)	(4 586)	17,7	**(7 444)**	(8 289)	10,2	**237**	469	(49,5)	**(26 591)**	(31 260)	14,9
410	440	(6,8)	**492**	505	(2,6)	**(486)**	232	>(100,0)	**(3 135)**	2 495	>(100,0)
6	72	(91,7)	**108**	130	(16,9)	**23**	56	(58,9)	**206**	591	(65,1)
(197)	(235)	16,2	**(603)**	(705)	14,5	**(214)**	(214)	–	**(2 305)**	(2 808)	17,9
–	(1)	100,0	**–**	–	–	**(7)**	–	(100,0)	**4**	(132)	>100,0
219	276	(20,7)	**(3)**	(70)	95,7	**(684)**	74	>(100,0)	**(5 230)**	146	>(100,0)
–	–	–	**–**	–	–	**(165)**	–	(100,0)	**(165)**	–	(100,0)
219	276	(20,7)	**(3)**	(70)	95,7	**(849)**	74	>(100,0)	**(5 395)**	146	>(100,0)
1	(38)	>100,0	**(273)**	(295)	7,5	**(39)**	–	(100,0)	**(278)**	(333)	16,5
–	–	–	**3**	22	(86,4)	**1**	570	(99,8)	**4**	592	(99,3)
220	238	(7,6)	**(273)**	(343)	20,4	**(887)**	644	>(100,0)	**(5 669)**	405	>(100,0)
(20)	(10)	(100,0)	**(46)**	(21)	>(100,0)	**(213)**	(236)	9,7	**(444)**	(341)	(30,2)
200	228	(12,3)	**(319)**	(364)	12,4	**(1 100)**	408	>(100,0)	**(6 113)**	64	>(100,0)
(90)	(123)	26,8	**70**	120	(41,7)	**(490)**	(39)	>(100,0)	**(626)**	(129)	>(100,0)
110	105	4,8	**(249)**	(244)	(2,0)	**(1 590)**	369	>(100,0)	**(6 739)**	(65)	>(100,0)
557	151	>100,0	**142**	139	2,2	**8**	28	(71,4)	**955**	510	87,3
(269)	(336)	19,9	**(102)**	(123)	17,1	**(11)**	(11)	–	**(626)**	(793)	21,1
(1)	–	(100,0)	**(13)**	(13)	–	**(15)**	(16)	6,3	**(29)**	(30)	3,3
489	612	(20,1)	**112**	66	69,7	**(823)**	101	>(100,0)	**(4 740)**	969	>(100,0)

6. SEGMENTAL REPORT continued

The Group operates in five principal geographical areas:

	2017 Revenue Rm	2016 Revenue Rm	**2017 Segment assets Rm**	2016 Segment assets Rm	**2017 Capital expen-diture Rm**	2016 Capital expen-diture Rm
South Africa	**15 281**	18 511	**11 172**	12 850	**684**	353
Rest of Africa including Mauritius	**1 717**	1 743	**1 157**	1 416	**102**	6
Australia	**1 193**	5 794	**2 751**	7 933	**94**	56
New Zealand	**2 580**	3 514	**798**	1 050	**25**	35
Southeast Asia	**2 427**	3 542	**1 631**	1 752	**49**	58
Middle East and other regions	**258**	651	**178**	331	**1**	2
	23 456	33 755	**17 687**	25 332	**955**	510

7. IMPAIRMENTS

As at 30 June 2017, it was necessary to impair assets due to the subdued economic conditions affecting the Aveng Steel, Aveng Mozambique and Aveng Mining businesses, as well as unused assets at Aveng Grinaker-LTA. An impairment charge totalling R225 million was recognised against ancillary operations comprising property, plant and equipment in the *Manufacturing and Processing* (R220 million charge), *Construction and Engineering: South Africa and rest of Africa* (R2 million charge), *Mining* (net recoverability of R1 million) and *Other and Eliminations* (R4 million charge) segments respectively.

A further impairment charge totalling R53 million relating to intangible assets was recognised comprising the *Manufacturing and Processing* (R52 million charge) segment and *Other and Eliminations* segment (R1 million charge) during the period ended 30 June 2017.

During the period ended 30 June 2016, impairment charge totalling R333 million was recognised against ancillary operations comprising property, plant and equipment in the *Manufacturing and Processing* (R295 million charge) and *Mining* (R38 million charge) segments respectively.

Impairments recognised during the year

	2017 Rm	2016 Rm
Intangible assets	**(53)**	–
Property, plant and equipment	**(225)**	(333)
	(278)	(333)

		2017		2016	
		Gross of taxation Rm	**Net of taxation Rm**	Gross of taxation Rm	Net of taxation Rm
8.	**HEADLINE LOSS**				
	Determination of headline loss				
	Loss for the period attributable to equity holders of parent		**(6 708)**		(101)
	Impairment of property, plant and equipment	**225**	**221**	333	302
	Impairment of intangible assets	**53**	**53**	–	–
	Gain on Steeledale transaction	**(2)**	**(2)**	–	–
	Profit on sale of property, plant and equipment	**(14)**	**(13)**	(610)	(500)
	Headline loss		**(6 449)**		(299)

		2017 Rm	2016 Rm
9.	**DEFERRED TAXATION**		
	Reconciliation of deferred taxation asset		
	At the beginning of the year	**1 858**	1 580
	Recognised in earnings or loss – current year*	**(433)**	165
	Recognised in earnings or loss – adjustment for prior year*	**(38)**	4
	Effect of change in foreign tax rate*	**–**	(7)
	Foreign currency translation movement	**(85)**	158
	Reallocation from deferred taxation liability	**(10)**	(42)
	Disposal of subsidiary	**(2)**	–
		1 290	1 858
	Reconciliation of deferred taxation liability		
	At the beginning of the year	**(266)**	(221)
	Recognised in earnings or loss – current year*	**(77)**	60
	Recognised in earnings or loss – adjustment for prior year*	**13**	(23)
	Accounted for directly in equity	**–**	(122)
	Reallocation to deferred taxation asset	**10**	42
	Foreign currency translation movement	**1**	(2)
		(319)	(266)

* *The net movement on deferred taxation amounts to R535 million (2016: R199 million) in the statement of comprehensive earnings.*

		2017 Rm	2016 Rm
9.	**DEFERRED TAXATION** continued		
	Deferred taxation asset balance at the year-end comprises:		
	Accelerated capital allowances	**(229)**	(5)
	Provisions	**256**	231
	Contracts	**51**	(93)
	Other	**44**	(38)
	Assessed losses carried forward	**1 168**	1 763
		1 290	1 858
	Deferred taxation liability balance at the year-end comprises:		
	Accelerated capital allowances	**(418)**	(375)
	Provisions	**17**	16
	Contracts	**(4)**	6
	Other	**(85)**	74
	Convertible bond	**(62)**	(84)
	Assessed losses carried forward	**233**	97
		(319)	(266)

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

As at June 2017 the Group had unused taxation losses of R13 201 million (2016: R7 480 million) available for offset against future profits. A deferred taxation asset has been recognised in respect of R4 949 million (2016: R5 854 million) of such losses. No deferred taxation asset has been recognised in respect of the remaining R8 252 million (2016: R1 626 million) due to the uncertainty of future taxable profits in the related legal entities.

Unused tax losses

The Group performed a five-year forecast for the financial years 2018 to 2022, which is the key evidence that supports the recognition of the deferred taxation assets. This forecast specifically focused on Aveng (Africa) Proprietary Limited and Aveng Australia Holdings. Certain restructuring and corporate actions, including sale of 70% of Steeledale and sale of investments held by Aveng Capital Partners have been effected. In addition, the Aveng Grinaker-LTA transaction is expected to be effective during the 2018 financial year.

The write-off of uncertified revenue resulted in an additional tax loss in McConnell Dowell, a subsidiary of Aveng Limited. No additional deferred tax asset which would have amounted to R1 305 million has been recognised in this regard.

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

	2017 Rm	2016 Rm
10. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS		
Uncertified claims and variations (underclaims)**[1]	**1 760**	6 584
Contract contingencies**	**(701)**	(390)
Progress billings received (including overclaims)[2]	**(1 205)**	(1 014)
Uncertified claims and variations less progress billings received	**(146)**	5 180
Contract receivables[3]	**3 262**	3 146
Provision for contract receivables	**(2)**	(2)
Retention receivables[4]	**149**	126
	3 263	8 450
Amounts received in advance[5]	**(146)**	(308)
Net amounts due from contract customers	**3 117**	8 142
Disclosed on the statement of financial position as follows:		
Uncertified claims and variations**	**1 760**	6 584
Contract contingencies	**(701)**	(390)
Contract and retention receivables	**3 411**	3 272
Provision for contract receivables	**(2)**	(2)
Amounts due from contract customers	**4 468**	9 464
Progress billings received	**(1 205)**	(1 014)
Amounts received in advance	**(146)**	(308)
Amounts due to contract customers	**(1 351)**	(1 322)
Net amounts due from contract customers	**3 117**	8 142

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

1 *Includes revenue not yet certified – recognised based on percentage of completion / 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.*

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

	Uncertified claims and variations Rm	Provision for amounts due from contract customers Rm	Contract receivables Rm	Provision for contract receivables Rm	Retention receivables Rm	Total Rm
2017						
Amounts due from contract customers						
Non-current assets	**756**	**–**	**–**	**–**	**–**	**756**
Current assets	**1 004**	**(701)**	**3 262**	**(2)**	**149**	**3 712**
	1 760	**(701)**	**3 262**	**(2)**	**149**	**4 468**
2016						
Non-current assets	1 417	–	–	–	–	1 417
Current assets	5 167	(390)	3 146	(2)	126	8 047
	6 584	(390)	3 146	(2)	126	9 464

Amounts due from contract customers includes R908 million (2016: R4,7 billion) which is subject to protracted legal proceedings.

		2017 Rm	2016 Rm
11.	**BORROWINGS AND OTHER LIABILITIES**		
	Borrowings held at amortised cost		
	Interest-bearing borrowings comprise:		
	Payment profile		
	– within one year	**1 121**	1 214
	– between two to five years	**1 945**	1 770
		3 066	2 984
	Interest rate structure		
	Fixed and variable (interest rates)		
	Fixed – long term	**1 901**	1 635
	Fixed – short term	**348**	285
	Variable – long term	**48**	136
	Variable – short term	**769**	928
		3 066	2 984

For more information on the funding confirmations from major funding banks refer to note 17.

For the full list of borrowings including terms and rate of interest refer to the Borrowings note in the consolidated financial statements available on the Group's website.

11. BORROWINGS AND OTHER LIABILITIES continued

Borrowings held at amortised cost continued

	2017 Rm	2016 Rm
Finance lease liabilities are payable as follows:		
Minimum lease payments due		
– within one year	**206**	321
– in two to five years	**184**	194
Less: future finance charges	**(38)**	(30)
Present value of minimum lease payments	**352**	485

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

The total asset-based finance facilities amounted to AUD6 million (2016: AUD12 million). The amount outstanding on these facilities as at year end was AUD3 million (2016: AUD10 million) and is equivalent to R31 million (2016: R96 million). These asset-based arrangements were secured by plant and equipment with a net carrying amount of R52 million (2016: R109 million).

The **Mining** operating segment entered into various asset-based finance lease agreements to purchase operating equipment denominated both in USD and ZAR. These arrangements are secured by the assets for which the funding was provided and are repayable in monthly and quarterly instalments with the final repayment to be made in November 2021. The total amount outstanding on these facilities amounted to R317 million (2016: R335 million). Equipment with a net carrying amount of R494 million (2016: R471 million) has been pledged as security for the facility.

The **Mining and Manufacturing and Processing** operating segments entered into various vehicle lease arrangements. Equipment with the net carrying amount of R3 million (2016: R7 million) has been pledged as security.

12. PAYABLES OTHER THAN CONTRACT-RELATED

	Opening balance Rm	Additions Rm	Utilised Rm	Un-winding of discount Rm	Total Rm
Reconciliation of payables other than contract related					
2017					
Payables other than contract-related	**–**	**165**	**(21)**	**10**	**154**

	2017 Rm	2016 Rm
Current liabilities	**21**	–
Non-current liabilities	**133**	–
	154	–

South African government settlement

Following an extensive period of negotiation, the South African government and the participating construction companies have concluded the settlement agreement which addresses outstanding legacy issues and commits to a plan which will ensure the repositioning of the South African construction sector. All parties to the settlement agreement acknowledge the need to foster a better relationship between the government and the construction industry going forward.

A provision has been made for the annual payment of R21,25 million over 12 years. This provision was discounted to a value of R165 million. The first payment was made during the current financial year.

	2017 Rm	2016 Rm
13. TAXATION		
Major components of the taxation expense		
Current		
Local income taxation – current period	**42**	20
Local income taxation – recognised in current taxation for prior periods	**21**	18
Foreign income taxation or withholding taxation – current period	**30**	346
Foreign income taxation or withholding taxation – recognised in the current taxation for prior periods	**(2)**	(56)
	91	328
Deferred		
Deferred taxation – current period	**510**	(225)
Deferred taxation – foreign tax rate change	**–**	7
Deferred taxation – arising from prior period adjustments	**25**	19
	535	(199)
	626	129

	2017 %	2016 %
Reconciliation of the taxation expense		
Effective taxation rate on earnings	**(10,2)**	201,0
Exempt income and capital profits	**0,1**	328,5
Deferred taxation asset not recognised	**37,6**	(144,6)
Disallowable charges*	**1,7**	(303,1)
Prior year adjustment	**0,3**	29,2
Foreign tax rate differential and other	**(1,6)**	130,8
Withholding taxation	**0,1**	(213,8)
	28,0	28,0

* *This relates mainly to the impact of the VRP payment which is treated as a non-deductible expense and foreign exchange differences recognised in other comprehensive income.*

South African income taxation is calculated at 28% (2016: 28%) of the taxable income for the year. Taxation in other jurisdictions is calculated at the prevailing rates.

		2017 Rm	2016 Rm
14.	**NON-CASH AND OTHER MOVEMENTS**		
	Earnings from disposal of property, plant, equipment and vehicles	**(147)**	(648)
	Gain on Steeledale transaction	**(2)**	–
	Impairment of goodwill, property, plant and equipment and intangible assets	**278**	333
	Fair value adjustments	**(56)**	(306)
	Movements in foreign currency translation	**(562)**	205
	Movement in equity-settled share-based payment reserve	**12**	13
	Claims write-down*	**4 967**	–
		4 490	(403)

** Claims write-down includes QCLNG R2,4 billion and Other uncertified revenue and claims R2,7 billion, refer note 4 Significant change in estimates.*

		2017 Rm	2016 Rm
15.	**CONTINGENT LIABILITIES**		
	Contingent liabilities at the reporting date, not otherwise provided for in the consolidated financial statements, arise from performance bonds and guarantees issued in:		
	South Africa and rest of Africa		
	Guarantees and bonds (ZARm)	**3 014**	3 615
	Parent company guarantees (ZARm)	**507**	516
		3 521	4 131
	Australasia and Asia		
	Guarantees and bonds (AUDm)	**326**	409
	Parent company guarantees (AUDm)	**588**	521
		914	930

Claims and legal disputes in the ordinary course of business

The Group is, from time to time, involved in various claims and legal proceedings arising in the ordinary course of business. The Board does not believe that adverse decisions in any pending proceedings or claims against the Group will have a material adverse effect on the financial position or future operations of the Group. Provision is made for all liabilities which are expected to materialise and contingent liabilities are disclosed when the outflows are probable.

Contingent assets

In the current period, a counter claim against the Group was awarded to Kenmare Resources to the value of R150 million for professional indemnity insurance. The Group has lodged a claim against the insurer to recover this amount.

16. FAIR VALUE OF ASSETS AND LIABILITIES

The Group measures the following financial instruments at fair value:
- Infrastructure investments; and
- Forward exchange contracts.

The Group has reassessed the fair value of its infrastructure investments and those transferred to held-for-sale as at 30 June 2017, R56 million (2015: R251 million) of unrealised gains have been recognised during the current financial year.

Refer to the fair value of assets and liabilities note as contained in the consolidated financial statements available on the Group's website for additional detail regarding the methodology, valuation parameters and assumptions applied as well as the fair value hierarchy and the sensitivity analysis.

17. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS

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

QCLNG claims settlement update

Following various contractual disputes and a protracted arbitration process, the International Chamber of Commerce ("ICC") has determined that McConnell Dowell has received an amount of AUD50,5 million (R508 million) (including interest), being 50% of the total award to the joint venture.

The key features of the award include:
- AUD50,5 million (R508 million) to be settled immediately;
- Each party is accountable for its own legal expenses; and adequate provision has been made for McConnell Dowell's legal fees to date; and
- The QCLNG award is binding and final, with very limited appeal rights.

Given that the quantum of the QCLNG award is below the value of the claims, we have recorded a write-down of AUD235 million (R2,4 billion) in the reported results for the year ended 30 June 2017.

17. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS continued

Liquidity, solvency, Group-wide funding, strategic review, and going concern assertion

As included in the directors' report, and further detailed below, in determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The directors have considered the agreements reached post the year-end, the actions taken by the Group, the financial plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements. In forming the conclusion, the directors have considered the following:

Funding confirmation from major South African funding banks

Subsequent to the year-end and following the reported outcome of the QCLNG award, the Group engaged with its major funding banks who currently provide various facilities to the Group under existing agreements. Refer to note 11. This engagement resulted in the conclusion of an overarching term sheet between the Group and these major funding banks providing for:

- All banking facilities with the major funding banks that were in place at the year-end, will remain in place under similar terms until at least 31 October 2018;
- An additional facility will be made available by The Standard Bank of South Africa Limited, in the amount of R150 million on similar terms to those agreed with other funding banks;
- To the extent permitted under the Group's convertible bond, the security position of the major funding banks for their new and existing funding arrangements will be enhanced by granting security over certain currently unencumbered assets; and
- Ongoing compliance with financial covenants including an EBITDA covenant, a liquidity headroom covenant, and a guarantee cover ratio.

Following credit approval by all the major funding banks, this term sheet has been approved by the Board and the Group will now commence the process of formalising these term sheets with the major funding banks and expects this to be completed in due course.

Recapitalisation of Australian-based operating subsidiary

In conjunction with the above and following the QCLNG award and the re-evaluation of the long outstanding uncertified revenue, the Group has executed a recapitalisation and working capital injection into its Australian-based operating subsidiaries through Aveng Australia Holdings and McConnell Dowell Corporation Limited. The recapitalisation process included the settlement of loans at Aveng Australia Holdings and the subscription for shares by Aveng Australia Holdings Proprietary Limited in McConnell Dowell Corporation Limited.

This action is sufficient to establish a renewed capital base and working capital structure, as well as to provide the appropriate liquidity availability for these operations to execute their financial plans in the foreseeable future. The Australian-based operating subsidiary will continue to receive financial and operational support and has been provided with adequate liquidity to execute its business plan.

17. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS continued

Strategic review – medium and long term planning

With a view to the medium and long term strategy of the Group's overall financial and operational structure, an independent professional adviser has been engaged to undertake an overall strategic review of the Group. This review began during August 2017, and incorporates the consideration and evaluation of all key requirements to both support and enhance the future sustainability of the Group, including among others:

- Recommending a sustainable future capital and funding model for the Group over the medium term, including recommendations specific to the Australian-based operating structure and planning for funding options required to fund the repayment of the Group's R2 billion convertible bond maturing in July 2019 , refer to note 11.
- The identification of operating businesses and assets that are core to the Group and support the overall Group long term strategy.

The outcome of the strategic review is expected to be completed by 30 November 2017.

Disposal planning for non-core assets

Post the year-end, the Group has identified certain assets as non-core, and will embark on a plan during the financial year to 30 June 2018 to realise value from the disposal of these assets. These assets comprise various non-core fixed properties and other non-core minority interests.

Once the plan has been executed, and the non-core assets have been disposed of, a portion of the net proceeds received will be either earmarked or applied as part of a plan to reduce debt in the South Africa, and a portion will be utilised to further enhance the working capital structure of the Group.

Aveng Grinaker-LTA empowerment transaction

Following overwhelming shareholder support for the Aveng Grinaker-LTA empowerment transaction, which will result in the sale of 51% beneficial interest in the business to Kutana Construction. The Group has received unconditional approval from both the South African Competition Commission and competition authorities in Namibia, Botswana and Swaziland. The effective date of the transaction is 1 October 2017 subject to all the conditions precedent being met.

17. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS continued

Genrec award

Following the long outstanding dispute between Genrec Engineering Proprietary Limited ("Genrec") and the Aveng Steel Fabrication division, and which relates to Aveng's entitlement to compensation as determined by an arbitration award in August 2014, the Dispute Adjudication Board ("DAB") ordered Genrec to pay to Aveng the sum of R123 million; and in addition, to pay interest on such sum at the simple interest rate of 15,5% from 1 September 2011 to date of payment.

The DAB is currently curing calculation errors in its award, which amended award has not yet been delivered to the parties. The parties have agreed that the final value of the award is R124 million (excluding interest).

In terms of the initial award, the total cash award payable to Aveng is R238 million. Genrec is obliged to promptly give effect to the terms of the award and make payment. The award will remain binding unless and until overturned by way of an arbitration process which may follow.

Commentary

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2017 AND RESIGNATION OF CHIEF EXECUTIVE OFFICER

Overview

Salient features

- Net loss of R6,7 billion and headline loss of R6,4 billion
- Non-cash impairments and write-downs on long-outstanding uncertified revenue of R5,9 billion
- Headline loss of R630 million excluding non-recurring write-downs and charges
- Queensland Curtis Liquefied Natural Gas Pipeline Project (“QCLNG”) award of R508 million (AUD50,5 million)
- Fixed overhead expenses reduced by R503 million or 18%
- Unacceptable operating performance, hence operational intervention
- Net asset value (“NAV”) reduced to R14,56 per share
- Contracting businesses’ order book for FY18 100% secured
- Agreement reached with major funding banks to renew and extend facilities
- Mr Kobus Verster has resigned as Chief Executive Officer with immediate effect and Mr Eric Diack will assume the duties of Chief Executive Officer and Executive Chairman

Write-offs and derisking

QCLNG award

Aveng received R508 million (AUD50,5 million) from the QCLNG award. Given that this was well below expectation and the amount was recognised as a receivable, the Group has recorded a non-cash write-down of R2,4 billion (AUD235 million) in relation to the QCLNG award in its reported results for the year ended 30 June 2017.

Other long-outstanding uncertified revenue

As announced in the trading statement of 20 September 2017, Aveng continuously assesses its recognised uncertified revenue. The progress on the various outstanding claims and project performance is assessed in the context of current performance of the business, the current business environment, and expected future market conditions.

Commentary continued

The following factors have guided the assessment:
- Certain unfavourable claim settlement awards, most notably the recent QCLNG award, which realised substantially less than the carrying value, as well as the previously reported Kenmare Resources and Mokolo Crocodile Water Augmentation awards in South Africa
- The current economic climate, which has resulted in a highly litigious environment and a protracted and costly process in bringing long-outstanding claims to commercial conclusion
- The complexity of the claims and the associated commercial challenges
- The limitations such a process places on management's ability and flexibility to balance the value of commercial settlements with the associated costs, business disruptions, client relationships and impact on the Group's reputation.

The Board has therefore decided to write-down long-outstanding uncertified revenue and claims in an amount of R2,7 billion for the year ended 30 June 2017.

This change of approach has resulted in six major commercial settlements and arbitration awards being concluded, resulting in positive cash inflows and further reducing uncertainty.

Liquidity

Net debt of R1,07 billion (June 2016: R534 million).

Post-year-end, the proceeds from the QCLNG award improved the Group's net cash position by R508 million.

The QCLNG award and write-downs remove significant risk and uncertainty from the Group's balance sheet. The NAV of the business is now R14,56 per share after recognising the various write-downs and impairments.

Subsequent to the year-end, and following the reported outcome of the QCLNG award, the Group engaged with its major funding banks who currently provide various facilities under existing agreements. This engagement resulted in the conclusion of an overarching term sheet, renewing and extending these facilities.

Following credit approval by all the major funding banks, this term sheet has been approved by the Board, and the Group will now commence the process of formalising same with these major funding banks and expects this to be completed in due course.

Following the QCLNG award and the re-evaluation of the long-outstanding uncertified revenue, the Group executed a recapitalisation and working capital injection into its Australian-based operating subsidiaries through McConnell Dowell. The purpose of the plan is to ensure an adequate capital base and working capital.

Commentary continued

Aveng Capital Partners: proceeds from sale of infrastructure investments

On 12 December 2016, Aveng successfully disposed of Steelmetals' N3TC equity interest for a purchase price of R195 million. On 6 February 2017, the conditions precedent were fulfilled in respect of the Blue Falcon equity interest and the Windfall equity interest. R600 million from these disposals was received on 13 February 2017. A total amount of R821 million was received in respect of the sale of these assets.

Genrec award

Following the long-outstanding dispute between Genrec Engineering Proprietary Limited ("Genrec") and the Aveng Steel Fabrication division, and which relates to Aveng's entitlement to compensation as determined by an arbitration award in August 2014, the Dispute Adjudication Board ("DAB") ordered Genrec to pay to Aveng the sum of R123 million; and in addition, to pay interest on such sum at the simple interest rate of 15,5% from 1 September 2011 to date of payment.

The DAB is currently curing calculation errors in its award, which amended award has not yet been delivered to the parties. The parties have agreed that the final value of the award is R124 million (excluding interest).

In terms of the initial award, the total cash award payable to Aveng is R238 million. Genrec is obliged to promptly give effect to the terms of the award and make payment. The award will remain binding unless and until overturned by way of an arbitration process which may follow.

Strategic review

With a view to the medium- and long-term sustainability of the Group's overall financial and operational structure, an independent professional advisor has been engaged to undertake an overall strategic review of the Group. This review began during August 2017, and incorporates the consideration and evaluation of all key requirements to both support and enhance the future sustainability of the Group, including amongst others:

- The identification of operating businesses and assets that are core to the Group and support the overall Group long term strategy; and
- Recommending a sustainable future capital and funding model for the Group over the medium term, including recommendations specific to the Australian-based operating structure and planning for funding options required to fund the repayment of the Group's convertible bonds maturing in July 2019.

The Group has identified certain assets as non-core, and will embark on a plan during the current financial year to realise value from the disposal of these assets. Once the disposal of non-core assets has been executed and the strategic review has been concluded, the objectives will be to reduce debt in South Africa and to further enhance the working capital structure of the Group.

The outcomes of the strategic review are expected to be completed by 30 November 2017.

Commentary continued

Remedial actions to date

Aveng continuously assesses its recognised uncertified revenue. This review resulted in a significant write-down, which has derisked the Group's balance sheet. The Group has further enhanced its internal controls regarding the recognition of uncertified revenue and renewed its focus on cash flow and performance monitoring across the Group.

Furthermore, taking the current economic environment into account, the Group overheads were significantly downsized to reflect the current operating environment.

The Profit Improvement Programme initiated at Aveng Manufacturing, during the second half of the 2017 financial year, is expected to yield results in the next financial year.

The McConnell Dowell organisational reset has been completed and is now moving towards a stabilised operation preparing for growth. This reset process has resulted in:

- Simplified organisation with new operating model
- Empowered business units
- Strengthened technical and operational capabilities
- Structured project review process: improved project and business governance
- Increased connectivity and collaboration – enhanced efficiency
- Strengthened client focus
- Enhanced and refreshed the executive leadership of the business.

Eric Diack was appointed as Executive Chairman on 23 August 2017. Eric's extensive commercial experience will support the management team as it enhances its strategy to enable the Company to realise its significant underlying value.

Operational review

There is an enhanced focus on cash flow and performance monitoring across the Group. An operational review will commence immediately, focused on Aveng Manufacturing and Aveng Grinaker-LTA.

Aveng Manufacturing

Over the course of the last year, the top management has been enhanced and strengthened. The Profit Improvement Plan was implemented and executive focus is now required on unlocking the identified benefits. This programme is focused on markets, procurement, production efficiency and the rationalisation of production capacity in line with market demand. The targeted improvements will be quantified and reported at half-year.

Aveng Grinaker-LTA

The appointment of a managing director is a priority and a search is currently under way. An appointment is expected to be made early in the new calendar year. In the interim, the organisational

Commentary continued

design will be reviewed in order to achieve an efficient and effective operating structure. In addition, a comprehensive review of major Civil Engineering projects will be conducted and the Building and Coastal divisions will be subject to a margin enhancement intervention. The Mechanical & Electrical, Aveng Water and Aveng Rand Road divisions are performing according to plan. The results of these interventions will be fully reported at half-year.

MARKET REVIEW

The South African infrastructure market remains subdued, reflecting the marginal economic growth experienced in the country. Aveng Grinaker-LTA continues to operate in a tough market environment, with its financial performance adversely affected by low revenue and continued underperformance in project execution, mainly in the Civil Engineering division. Despite current building projects under construction, it is expected that building activity will reduce and shift to demand in healthcare facilities, student accommodation and other smaller projects. The civil engineering industry remains competitive, with limited new opportunities coming to market. Road rehabilitation work remains dominant. Current public infrastructure spend is focused on the transportation, energy and water segments.

The pace of expansion in the Australia and Asia Pacific construction industry steadied over the past 12 months; however, the Australian construction industry is expected to grow at a steady rate over the next five years. Despite the limited growth in the mining and energy sectors, the outlook remains positive. The growth will largely be driven by significant private and public sector investments in road, rail and power infrastructure projects. The Australian building industry remains robust with spending set to expand on affordable housing programmes and commercial projects. The growth in Southeast Asia remains very healthy and driven by investments in infrastructure, water utilities and energy projects. In addition, the market in New Zealand continues to gain momentum, with government investment in large-scale transport and water projects which will continue to fuel growth for the region and expansion of the construction industry.

The mining industry in South Africa and globally is cautiously optimistic, with mining companies looking to increase output and make new investments in assets. The current rally in commodity prices provides opportunities for Aveng Mining.

The South African manufacturing industry is experiencing some headwinds due to weak economic activities and difficult trading conditions. The sector had negative annual growth over the past 12 months and it is not expected to improve in the short term. However, having access to a diverse product portfolio, with multiple manufacturing facilities and the ability to access markets in various geographies, provides an opportunity to improve the overall performance of Aveng Manufacturing.

The economic environment facing the steel industry continues to be challenging. Oversupply continues to weigh on the steel sector. The improvements experienced in the current year were mainly due to the increase in raw material prices and increased protection measures rather than any

Commentary continued

significant improvement in the demand for steel. The recently announced safeguard duties on imports of certain steel products will improve the local market and should benefit Aveng Steel during the next financial year.

FINANCIAL PERFORMANCE

Aveng reported a headline loss of R6,4 billion and a net loss of R6,7 billion. This loss included the impairments and write-downs on long-outstanding uncertified revenue of R5,1 billion, and resultant deferred tax asset write-downs of R531 million. In order to better understand the underlying performance of the Group, a discussion of the result excluding the adjustments is required.

Basic loss per share was 1 690,6 cents loss per share compared to a 25,4 cents earnings per share in the comparative period and **headline loss per share** increased to 1 625,3 cents loss per share (2016: 75,2 cents loss per share).

Statement of comprehensive earnings

Adjusted revenue decreased by 19% to R27,4 billion (2016: R33,8 billion). Revenue reduced in the majority of segments due to weak market conditions in the South African market and reduced activity at McConnell Dowell. However, this was partially offset by some growth in activity levels in Aveng Mining.

The **adjusted gross margin** of 7,2% for the Group remained largely in line with the prior year.

Adjusted net operating earnings decreased from a profit of R146 million in 2016 to a loss of R113 million, due to:

- resolution of some major commercial claims at Aveng Grinaker-LTA relating to the Mokolo Water Augmentation and Majuba Rail contracts
- operational underperformance in relation to Civil Engineering and a disappointing performance in Building and Coastal on certain contracts
- completion of work and commercial matters in relation to legacy and historic projects at McConnell Dowell
- weak performance in the Manufacturing businesses in the second half
- separation costs relating to Aveng Mining’s contract with Wesizwe’s Bakubung mine and poor performance on a project in Burkina Faso

though partially offset by:

- the realisation of R503 million savings in overhead expenses throughout the Group, which resulted in an 18% reduction in operating costs compared to June 2016
- improved performance in Aveng Mining’s open cut business during the second half of the year
- continued improved operating performance at Aveng Steel due to efficiencies and improved margins.

Commentary continued

The **adjusted headline loss** increased to R630 million from a R299 million loss in the comparative period.

Net losses of R6,7 billion include the following non-recurring items:

- a present value charge of R165 million (R255 million payable over 12 years) for the expense pertaining to the Settlement Agreement concluded on 11 October 2016 with the South African government
- Aveng previously reflected a debt of R206 million from Kenmare Resources pertaining to work performed in 2011/12. During December 2016, the Arbitration Tribunal issued their partial ruling, with Aveng being awarded their debt of R206 million in full, together with interest. The Tribunal awarded a counterclaim in favour of Kenmare in the amount of R150 million. This amount, together with associated legal costs, is the subject of an insurance claim which has not been recognised as an asset
- a non-cash impairment of uncertified revenue that reduces the risk and uncertainty of R5,1 billion, comprising the QCLNG award settlement that was lower than the carrying value (R2,4 billion) and long-outstanding uncertified revenue (R2,7 billion). In addition, a resultant impairment of deferred tax assets in the Group of R531 million was recognised, which aligns to the expected future utilisation of the deferred tax asset.

An **impairment charge** of R278 million was recognised against underutilised assets in Aveng Steel as a result of the continued subdued trading conditions in the steel market. This includes a R225 million charge against Plant & Equipment and R53 million against intangible assets.

Net **finance charges** of R444 million increased by 30% (2016: R341 million) in relation to the comparative period due to higher utilisation of facilities.

Statement of financial position

The Group incurred **capital expenditure** of R955 million (2016: R510 million) applying R820 million (2016: R323 million) to replace and R135 million (2016: R187 million) to expand property, plant and equipment. The majority of the amount was spent as follows:

- R168 million at McConnell Dowell, relating to specific projects in Australia and Southeast Asia
- R123 million at Aveng Manufacturing to increase capacity and optimise efficiencies of its factories
- R557 million at Aveng Mining, mainly to replace older fleet.

Equity-accounted investments increased by 234% to R334 million (2016: R100 million), recognising the 30% investment in Steeledale.

Assets held-for-sale decreased due to the conclusion of both the Aveng Capital Partners and Steeledale transactions.

Commentary continued

Amounts due from contract customers (non-current and current) decreased by 53% to R4,5 billion (2016: R9,5 billion). This balance was impacted by the non-cash impairment on uncertified revenue and the QCLNG award was well below expectations.

Payables other than contract-related increased by R154 million pertaining to the Settlement Agreement with the South African government.

Deferred tax asset write-off of R531 million. Following the QCLNG award and the impairments and write-downs disclosed above, an assessment was performed to evaluate the expected future utilisation of the deferred tax assets in various jurisdictions. Although assessed losses in South Africa and Australia do not expire, management's estimate reflects the expected utilisation of the deferred tax asset within the foreseeable future.

Operating free cash flow for the period amounted to an outflow of R308 million and included:

- significant cash outflow, albeit less than the prior period, for McConnell Dowell, associated with the completion of work and commercial matters in relation to legacy and historic projects
- Aveng Grinaker-LTA cash outflow as a result of project losses during the second half of the year and retrenchment costs related to the restructuring of the Civil Engineering business unit
- a cash outflow of R41 million at Aveng Mining due to capital expenditure
- a cash inflow of R58 million at Aveng Steel due to improved working capital management
- a cash outflow at Aveng Manufacturing of R76 million due to capital expenditure and late payments received from debtors
- net capital expenditure of R640 million
- inflows of R821 million and R104 million from the sale of infrastructure investments
- net finance charges of R316 million
- taxation paid of R182 million.

Cash and bank balances decreased to R2,0 billion (2016: R2,4 billion) resulting in a net debt position of R1,07 billion, compared to R534 million net debt at 30 June 2016.

OPERATING REVIEW

Safety

Safety remains a core value for Aveng and is integral to the way in which its operating groups conduct their business. Aveng prioritises the wellbeing of its people, clients and the communities in which it operates. The Group remains fully committed to delivering on its safety vision of *"Home Without Harm, Everyone, Everyday"*. As a result, the Aveng safety strategy has been revised and a clear set of safety requirements has been developed for implementation.

The all injury frequency rate ("AIFR") for the period was 3,28. This indicator includes all types of injuries and is calculated using 200 000 man-hours as the baseline for its frequency rate. Although the AIFR for the period was marginally weaker, Aveng is still showing a longer term improvement trend over the past few years. Total man-hours have decreased over this period, also impacting the frequency rates.

Commentary continued

Regrettably, two fatalities were recorded in the current financial year. A fatal incident occurred at McConnell Dowell's Barangaroo Project in Sydney, Australia, on 1 March 2017. The deceased, Timothy MacPherson, was a labour hire worker for a marine subcontractor. The second fatal incident occurred when Johannes Qhanya, a jumbo drill operator for Aveng Shafts & Underground, fell approximately 14 metres to the shaft bottom at Aveng Mining's operation in Limpopo. Sadly, Mr Qhanya passed away from his injuries six months later in June 2017.

The Aveng Board and executive leadership remain concerned with the current levels of unsafe behaviour demonstrated by road users, especially given that the Group works on various public road projects across its operations. For this reason, the Group has extended its reporting to include "monitored incidents" to ensure that the fatal risks associated with circumstances outside the control of Aveng, such as on public roads, are duly recognised and properly understood. Efforts to address such risks include increasing safety controls on road closures, enhancing employee vigilance during work activities inside a road closure or in close proximity to public vehicles, and monitoring employee driver behaviour. Regrettably, two lives were lost in the reporting period in a single monitored road traffic accident that was caused by a third party.

Aveng extends its sincere condolences and deepest sympathies to the families and colleagues of the deceased. The Group will continue with its unwavering safety commitment and efforts within its control to avert such tragedies in future.

Construction & Engineering: South Africa and rest of Africa

This operating segment comprises Aveng Grinaker-LTA (including Aveng Water) and Aveng Capital Partners.

Adjusted revenue decreased by 17% to R6,1 billion (2016: R7,3 billion) primarily due to lower work volumes in the Civil Engineering and Mechanical & Electrical business units and the discontinuation of the Aveng Engineering business.

Adjusted net operating loss increased to R188 million (2016: R187 million). This result includes the adverse effect of the Mokolo Crocodile Water Augmentation project claim, which resulted in earnings being reduced by R110 million.

Civil Engineering

Adjusted revenue decreased by 41% to R1,3 billion (June 2016: R2,3 billion) reflecting lower activity in the civil infrastructure market. The business made an operating loss of R388 million on contracts with state-owned entities, compared to an operating profit of R24 million in 2016.

Under-recovery of overheads negatively impacted margins. The business overheads were restructured by 30 June 2017. Construction of the Majuba Rail contract is complete and final accounts have been concluded on the Majuba Rail and Mokolo Crocodile Water Augmentation projects.

Commentary continued

Mechanical & Electrical

Revenue decreased by 14% to R1,2 billion (June 2016: R1,5 billion) as a result of reduced work on some of the major power projects. The operating margin benefited from the lower overhead cost structure as the business focused its efforts on shutdown and maintenance work. A substantial turnaround contributed to an operating profit of R68 million (June 2016: R143 million loss).

Buildings and Coastal

Revenue was stable at R3,1 billion with a net operating loss of R75 million (2016: R83 million profit) due to a once-off gain in the prior period as well as the close-out of several complex and fast-tracked projects. Progress continued on the Dr Pixley Ka Isaka Seme Memorial Hospital in KwaZulu-Natal and Leonardo Towers and 129 Rivonia Road in Sandton.

Aveng Water

Revenue increased by 15% to R356 million (June 2016: R309 million) due to the successful running of operational contracts and the upgrade of operational components on plants. The completion of loss-making projects and careful management of the cost on the eMalahleni contract, resulted in the business unit turning around from a loss of R273 million in 2016 to a profit of R32 million in 2017. The focus of the Aveng Water business is to leverage on the significant advantage in acid mine drainage, water treatment processes and operational maintenance. The South African mining and municipal water sectors offer attractive opportunities for growth.

Aveng Capital Partners

Aveng Capital Partners is responsible for managing the Group's investments in South African toll roads, real estate and renewable energy concessions and investments.

Aveng Capital Partners continues to manage the remaining assets in the portfolio, including the co-management of the SANRAL rehabilitation project on the N1 highway between Polokwane and Bela Bela and a 30% interest in the Dimopoint property portfolio. Aveng Capital Partners is undergoing a period of restructuring under new management, following the sale of the majority of its operational infrastructure assets. A number of opportunities, which are at an early stage of evaluation, have been identified in the water, transport and government accommodation sectors which could be beneficial to the wider Group.

Construction & Engineering: Australasia and Asia

This operating segment comprises four business units – Australia, New Zealand and Pacific, Southeast Asia and Built Environs. The Middle East business remains a joint venture operated in partnership with Dutco.

Adjusted revenue for FY17 decreased by 25% to AUD912 million (2016: AUD1,2 million), and reflects the reduced level of activity across all business units. Over the course of FY17, overheads were reduced by 20% to AUD79 million (2016: AUD98 million) and the cost structures were effectively

Commentary continued

adjusted and are commensurate to the revenue profile of the Company. The costs associated with sales and tendering were in line with budget.

Australia

Adjusted revenue declined by 38% to AUD328 million (2016: AUD525 million) due to the more selective approach to bidding. The Webb Dock project was completed during the year and performed in line with expectations. The operating earnings were negatively impacted by margin slippage on a few loss-making contracts, most of which were completed in 2017. The new contracts secured in FY17 are being executed at tendered margins.

Southeast Asia

Revenue decreased by 32% to AUD237 million (2016: AUD346 million) as a result of a major transmission pipeline in Thailand being completed in the prior year. The operational results were negatively impacted by underperformance on two infrastructure projects in Singapore. Both these projects are scheduled for completion during the first half of 2018. The Tangguh LNG export jetty contract, which was awarded to the business in 2017, is being executed at tendered margins.

New Zealand and Pacific Islands

Revenue reduced by 16% to AUD270 million (2016: AUD323 million) as the business unit successfully delivered the Waterview tunnel project and its work on the Christchurch infrastructure rebuild programmes. Even though some projects exceeded tendered margins within the business, these performances were not sufficient to compensate for the adverse impacts of the underperformance on the NOIC and Kawarua Falls Bridge projects, resulting in an overall operating loss for this business. These two loss-making contracts are scheduled for completion during 2018.

Built Environs

Built Environs has experienced a more than 100% increase in work in-hand compared to the same time last year, increasing revenue by 5%. New contract awards include the West Franklin Residential Development, Midvale Shopping Centre and Urbanest Student Housing projects. All projects are performing to tendered margin and there is a good pipeline of work opportunities in both Australia and New Zealand.

Aveng Mining

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

The segment reported a decrease in revenue to R4,1 billion (June 2016: R5,0 billion). Net operating earnings decreased by 21% to R219 million (June 2016: R276 million). The gross margin remained at 5% against the comparative period. The pressures experienced by clients due to the downturn in the commodity cycle are still evident in the current year’s results; however, the second half has seen significant improvement in the open cut business.

Commentary continued

Equipment underperformance has negatively impacted a contract in Burkina Faso. However, new drill rigs have been deployed in the last quarter and have been effectively commissioned. High-level meetings have been held in July with the client to mitigate any further losses and agree a revised scope.

The Bakubung platinum mine separation agreement was concluded on 20 September 2016 with full site evacuation in mid-June 2016. The impact is accounted for in the current year's results. The finalisation of this agreement removes significant risk from the business.

The Shondoni mine contract was terminated in April 2017. Aveng Mining and Sasol Mining entered into an unsuccessful mediation process and the business will proceed with arbitration in order to resolve the dispute.

The Gamsberg (South Africa) and Karowe (Botswana) mine contracts that commenced in the second half have been mobilised and are progressing to plan. Due to the upturn in the commodity prices, existing contracts have also started to increase their volumes.

The mining operating group has made significant investments in the business through various financing type arrangements to effectively demonstrate the ability to lower its cost of capital and maintain an effective mixture of on versus off-balance sheet arrangements. The balance sheet of the mining business continues to remain conservative to allow for any new projects to be capitalised.

Manufacturing and Processing

This operating segment comprises Aveng Manufacturing and Aveng Steel.

Revenue decreased by 10% to R7,9 billion (2015: R8,8 billion). Net operating loss improved significantly to a loss of R3 million (2016: R70 million loss).

Aveng Manufacturing

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

Revenue decreased by 18% to R2,4 billion (2016: R3,0 billion). Net operating earnings (EBIT) decreased by 47% to R51 million (2016: R96 million). Top line decline is evident in rail, mining, infrastructure and oil & gas sectors in South Africa. Profit has decreased substantially in the second half of the year. Low GDP growth has seen the traditional manufacturing customer base struggle to gain traction, resulting in lower turnover. Projects and tenders have been slow to be awarded or are subsequently being delayed. Furthermore, key customers are holding back capital expenditure and expansions.

Aveng ACS: Revenue decreased by 7% to R408 million (2016: R441 million) due to lower project activity in the oil & gas sector.

Commentary continued

Aveng DFC: Revenue increased by 3% to R481 million (2016: R469 million) due to higher turnover from the foreign subsidiaries. Lower local market demand was prevalent in the water, mining, and projects markets. While South Africa, and European markets remained subdued, the Americas showed an increased growth trend.

Aveng Duraset: Revenue decreased by 7% to R454 million (2016: R487 million). Turnover decline can be attributed to a downturn in market demand from both local and export mines.

Aveng Infraset: Revenue decreased by 13% to R744 million (2016: R851 million). Market demand has declined in both the infrastructure and rail maintenance sectors. Consequently, there have been lower sleeper, pipes and paving tile sales.

Aveng Rail: Revenue decreased by 52% to R372 million (2016: R770 million). Rail maintenance and rail construction continues to remain sluggish in terms of sales for the second half of the year. Tenders have been slow to be awarded and the timelines are constantly being pushed out.

Aveng Steel

This operating group consists of Aveng Trident Steel and Aveng Steeledale.

Revenue decreased by 6% for Aveng Steel compared to the previous reporting period mainly as a result of the inclusion of six months' trading activities relating to Aveng Steeledale, which is being equity accounted from 1 January 2017. This was after a 70% beneficial interest was sold to Kutana Steel.

Aveng Trident Steel

Revenue increased by 10% compared to the previous reporting period. Volumes were flat; however, the business achieved a higher selling price per ton. Exchange rate volatility has had a negative impact on the business earnings. Aveng Steel continues to contribute positively to the Group's liquidity through improved working capital management. Its EBITDA improved to a R22 million loss compared to a R106 million loss for June 2016.

TWO-YEAR ORDER BOOK

The Group's two-year order book amounted to R29,9 billion at 30 June 2017, increasing by 8% from the R27,7 billion reported at 31 December 2016. This includes a 1% increase in AUD terms in McConnell Dowell's book, translating into a 3% increase in Rand terms. The Aveng Mining order book increased by 29% or R1,7 billion, in line with increased activity in the commodities sector. Aveng Grinaker-LTA's order book increased by 2%. Securing quality work at targeted margins remains a priority.

Commentary continued

The geographic split of the order book at 30 June 2017 was 51% Australasia and Asia (December 2016: 53%), 41% South Africa (December 2016: 41%) and 8% other (December 2016: 6%).

A number of new projects have been awarded in the period under review, these include:
- Aveng Grinaker-LTA has been awarded various Mechanical & Electrical maintenance contracts, the Mtentu bridge in the Eastern Cape, the Pampoennek road project in North West, and the Fincorp office development in Mbabane, Swaziland
- McConnell Dowell was awarded the Murray Basin rail upgrade in Australia, Level Crossing Removal Authority, Western Programme Alliance, Australia, Dryandra Road in Australia, Australia Swanson dock east rehabilitation works in Melbourne, and the U2 on Waymouth development in Australia
- Aveng Mining was contracted to the Karowe (Botswana) and Gamsberg (South Africa) mines.

OUTLOOK AND PROSPECTS

The markets serviced by McConnell Dowell are expected to offer growth opportunities over the medium-term. In Australia, the continued roll-out of large- and medium-sized projects in the major cities is set to continue. In Southeast Asia, opportunities exist in infrastructure in Singapore, Malaysia, Thailand 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. The muted outlook is expected to extend into the manufacturing sector. However, there are opportunities to increase the penetration into selected international markets.

The local construction and manufacturing businesses will remain focused on improving financial performance in what is expected to be a continuously difficult market environment.

The improved contract mining environment and some notable contract wins place the 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.

The immediate priority for the Group will be the completion of the strategic and operational reviews. Non-core assets have been identified and a disposal process has commenced.

The improvement of liquidity headroom will remain a key focus in the immediate term.

Commentary continued

RESIGNATION OF AVENG CEO

In compliance with paragraph 3.59 of the Listings Requirements of the JSE, Aveng wishes to announce that Mr Kobus Verster has informed the Company's Board of directors of his resignation as Chief Executive Officer and Executive Director, with immediate effect.

Kobus has made the decision to step down as CEO of the Company to pursue other opportunities.

Mr Eric Diack will assume the duties of CEO, until such time as a new CEO has been appointed.

Financial assistance: Notice to shareholders in terms of section 45(5) of the Companies Act

In terms of the special resolution that was adopted by the Company at the Company's general meeting on 21 October 2016, the shareholders of the Company authorised the Company to provide financial assistance to all related and inter-related companies within the Group.

The Company will be providing loan funding to Aveng Australia Holdings Proprietary Limited. These loans constitute "financial assistance" as defined in section 45(1) of the Companies Act, 2008.

Accordingly, notice is hereby given that, in terms of the provisions of section 45(5) of the Companies Act, and pursuant to the special resolution referred to above, the Board of directors of the Company has adopted resolutions to approve the provision of financial assistance to Aveng Australia Holdings Proprietary Limited. The financial assistance will exceed one-tenth of 1% of the Company's net worth at the time of passing the resolution.

Having considered all reasonable financial circumstances of the Company in terms of and pursuant to the provisions of section 45 as read with section 4 of the Companies Act, the Board satisfied itself that:

(a) immediately after providing the financial assistance referred to above, the Company would satisfy the solvency and liquidity test contemplated in section 4 of the Companies Act;
(b) all relevant conditions and restrictions relating to the granting of such financial assistance by the Company contained in the Company's memorandum of incorporation are satisfied; and
(c) the terms and conditions on which such financial assistance is to be given are fair and reasonable to the Company.

Commentary continued

DISCLAIMER

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

By order of the Board

EK Diack
Executive Chairman

AH Macartney
Chief Financial Officer

Date of release: 26 September 2017

Corporate information

DIRECTORS

EK Diack (Executive Chairman and Chief Executive Officer), KW Mzondeki*# (Lead Independent Director), PJ Erasmus*#, SJ Flanagan*#, MA Hermanus*#, PA Hourquebie*#, MJ Kilbride*#, AH Macartney (Group CFO), JJA Mashaba (Group Executive Director), TM Mokgosi-Mwantembe*, MI Seedat*#

**Non-executive #Independent*

COMPANY SECRETARY

Michelle Nana

BUSINESS ADDRESS AND REGISTERED OFFICE

Aveng Park
1 Jurgens Street, Jet Park
Boksburg, 1459
South Africa
Telephone +27 (0) 11 779 2800

COMPANY REGISTRATION NUMBER

1944/018119/06

SHARE CODES

JSE: AEG
ISIN: ZAE 000111829

WEBSITE

www.aveng.co.za

AUDITORS

Ernst & Young Inc.
Registration number: 2005/002308/21
102 Rivonia Road
Sandton, Johannesburg, 2196
Private Bag X14
Northlands, 2146
South Africa
Telephone +27 (0) 11 772 3000
Telefax +27 (0) 11 772 4000

PRINCIPAL BANKERS

Absa Bank Limited
Australia and New Zealand Banking Group Limited
FirstRand Bank Limited
HSBC Bank plc
Investec Bank Limited
Nedbank Limited
The Standard Bank of South Africa Limited
United Overseas Bank Limited

CORPORATE LEGAL ADVISERS

Baker McKenzie
Norton Rose Fulbright
Webber Wentzel

SPONSOR

UBS South Africa Proprietary Limited
Registration number: 1995/011140/07
64 Wierda Road East
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REGISTRARS

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Telephone +27 (0) 11 370 5000
Telefax +27 (0) 11 688 5200

Business address and registered office

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