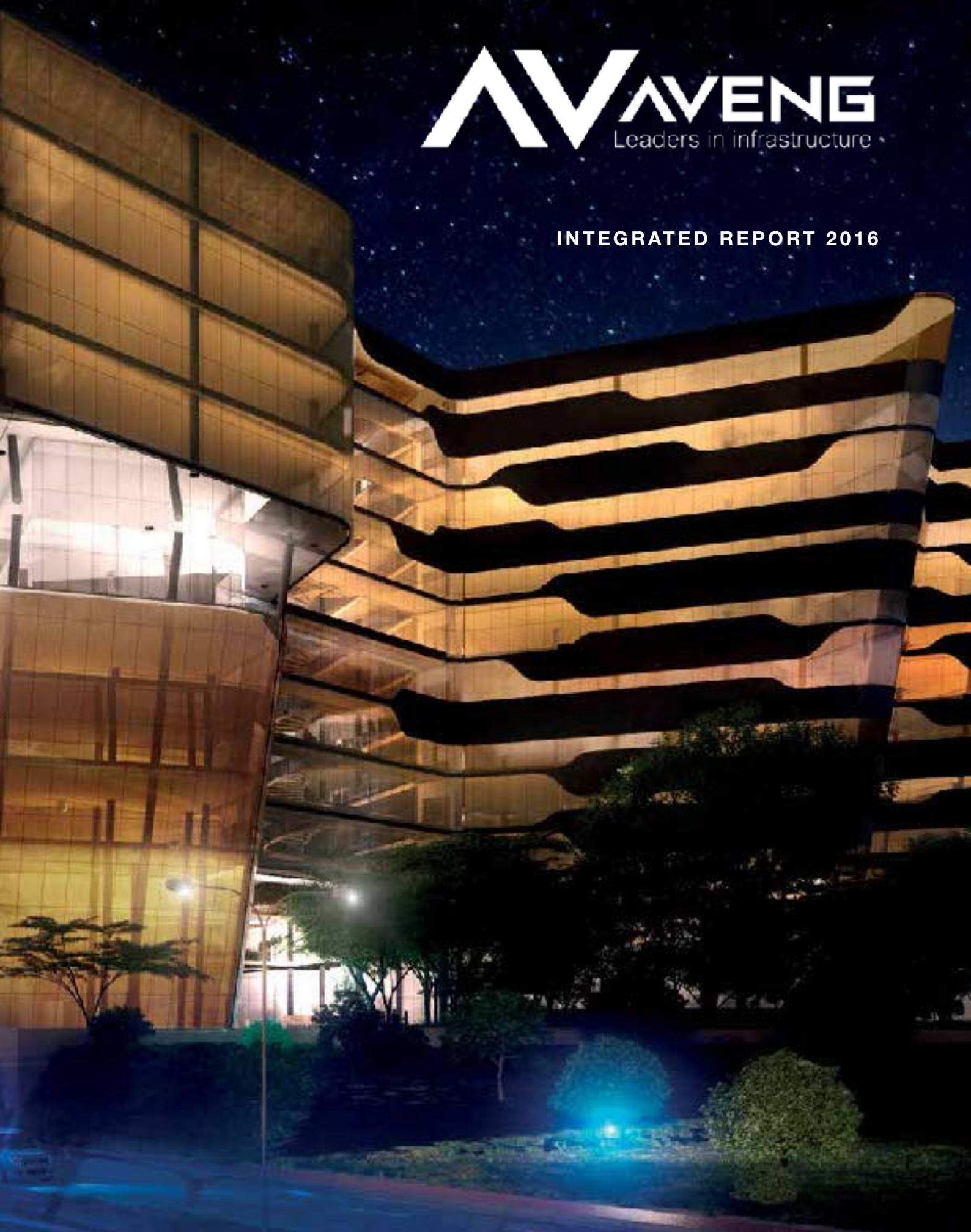




INTEGRATED REPORT 2016



Aveng 2016



Vision

Aveng owns and operates a portfolio of infrastructure, mining and manufacturing-related businesses, each of which targets top-quartile performance compared to its peers when measured against return on invested capital, earnings growth, and positive cash flow generation through the business cycle.

Values

Mission

Building a positive and lasting legacy of which our stakeholders, their families and future generations will be proud.

Achieved through:

- ◆ Our ongoing development of infrastructure which forms the backbone of many economies in developing countries
- ◆ Our dedication to a values-based culture of safety, honesty and accountability across all levels of the Group
- ◆ Our commitment to prioritising people, equality and fairness in all relationships we forge with stakeholders
- ◆ Our active contribution to social development and integration of sustainability throughout our Group.



Our values of safety, honesty and accountability underpin the way we expect employees to conduct business and interact with our stakeholders




Safety is paramount, never to be compromised in the pursuit of any objective

Forward-looking statements

This report contains forward-looking statements about the Group's operations and financial conditions. They are based on the best estimates and information of Aveng at the time of writing. They are nonetheless subject to significant uncertainties and contingencies, many of which are beyond the control of the Group. Unanticipated events will occur and actual future events may differ materially from current expectations due to new business opportunities, changes in priorities by the Group or its joint operations and other factors. Any of these factors may materially affect the Group's future business activities and its ongoing results.

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76 Abridged corporate governance 	88 Remuneration report 	108 Shareholders' analysis and diary Appendix 110 Summarised audited consolidated financial statements Cover image Sasol Head Office in Sandton, South Africa

Aveng 2016 suite of reports

	Integrated report	Audited consolidated annual financial statements
Contents	Concise communication focused on Aveng's material matters, performance and outlook for sustained value creation.	<ul style="list-style-type: none"> ◆ Audit committee report ◆ Directors' report ◆ Report of the independent auditors ◆ Audited consolidated financial statements.
Relationship of information between suite of reports	Relevant cross-references to more comprehensive information across the suite of reports.	A summarised audited consolidated set of financial statements has been extracted from the audited consolidated financial statements and included in the integrated report as an appendix.
Frameworks and guidelines applied	<ul style="list-style-type: none"> ◆ The King Code of Governance for South Africa (2009) (King III) ◆ IIRC International Integrated Reporting Framework V1.0 ◆ Companies Act 71 of 2008 (Companies Act) ◆ JSE Listings Requirements. 	<ul style="list-style-type: none"> ◆ International Financial Reporting Standards (IFRS) ◆ Companies Act ◆ JSE Listings Requirements.
Assurance	The Board, assisted by the audit committee and other sub-committees, oversees the integrated reporting process.	<ul style="list-style-type: none"> ◆ External audit opinions ◆ Internal audit ◆ Internal controls ◆ Management and governance oversight.
Web link	 www.aveng.co.za	



Stay informed

This report is complemented by our online information and resources at www.aveng.co.za

About this report

Reporting approach

This is Aveng's sixth integrated report, and is a further step forward in our corporate reporting journey. Our suite of reports for the 2016 financial year are identified and explained in the table above for ease of reference.

This report covers the financial period 1 July 2015 to 30 June 2016 and includes the performance of all of the Group's operations across all the geographies it operates in. Where external entities substantially influence Aveng's business, their real and potential impacts are also discussed in this report. Key matters have been identified in line with accepted best practice, and the matters regarded as being most material for Aveng and its stakeholders are shown on pages 24 and 26.  Aveng defines the materiality of matters for reporting purposes as those matters that substantially affect the Group's ability to create and sustain value over the short, medium and long term. For more information on the material matters determination process undertaken, refer to pages 18 to 23. 

Assurance and comparability

Changes to Aveng's operational structure are discussed under the section 2016 events. No significant changes have been made in the scope, boundary or measurement methods applied in this report and the rest of the suite of reports. There have been no restatements to comparatives unless otherwise stated in the relevant sections.

The summarised audited consolidated financial statements contained in this report are extracted from the audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the South African Companies Act 71 of 2008, as amended, and the Listings Requirements of JSE Limited, and independently audited by Ernst & Young Inc.

Sustainability overview	Corporate governance	Annual general meeting documents
<ul style="list-style-type: none"> ◆ Safety ◆ Health and wellness ◆ Environment ◆ Human resources ◆ South Africa transformation ◆ Corporate social investment ◆ Independent limited assurance report. 	<ul style="list-style-type: none"> ◆ Full corporate governance report ◆ King III compliance register. 	<ul style="list-style-type: none"> ◆ Our code of business conduct ◆ Letter to shareholders ◆ Salient features ◆ Commentary ◆ Extract from summarised audited consolidated financial statements ◆ Notice of annual general meeting ◆ Form of proxy ◆ Notes to the form of proxy ◆ Shareholders' diary ◆ Corporate information.
Key elements of the above information have been incorporated into the executive and operational reviews of the integrated report.	An abridged version of the full corporate governance report has been included in the integrated report.	This statutory information is posted to shareholders prior to the annual general meeting.
<ul style="list-style-type: none"> ◆ Aveng safety, health and environment and human resource policies and frameworks ◆ Carbon Disclosure Project (CDP), Water Disclosure Project (WDP) and Greenhouse Gas (GHG) protocol ◆ JSE Socially Responsible Investment Index (SRI) ◆ B-BBEE Codes of Good Practice ◆ Construction Sector Charter. 	<ul style="list-style-type: none"> ◆ King III ◆ Companies Act ◆ JSE Listings Requirements. 	<ul style="list-style-type: none"> ◆ King III ◆ Companies Act ◆ JSE Listings Requirements.
<ul style="list-style-type: none"> ◆ Internal audit ◆ Limited assurance by external audit on selected metrics ◆ BEE verification. 	<ul style="list-style-type: none"> ◆ Internal audit ◆ Annual board assessments. 	<ul style="list-style-type: none"> ◆ Internal controls ◆ Management and governance oversight.



This icon indicates sustainability information within this report.



This icon indicates where further information or supplementary reports can be found online.



This icon indicates where further information on a matter can be found elsewhere in this report.

Pursuant to the Group's commitment to transparency and effective communication, Aveng has provided disclosures in this report as well as the sustainability overview on the website in line with best practice and internationally accepted standards, where possible. Certain sustainability information included in this report has been correctly extracted from the online sustainability overview and should be read together with the online review to obtain a full comprehensive view.

The Group has sought independent assurance on selected non-financial metrics from its external auditors, Ernst & Young Inc. The limited assurance engagement was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and in accordance with ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*, issued by the International Auditing and Assurance Standards Board.

Aveng's combined risk management assurance model is well encapsulated in its "three lines of defence" approach and is continuously being improved, as reported on pages 18 and 19. 

Board responsibility and approval statement

The Board, assisted by its audit committee and other sub-committees, is ultimately responsible for overseeing the integrity of the integrated report. The Board has applied its collective mind to the preparation and presentation of the integrated report and concluded that it is presented in accordance with the International Integrated Reporting Framework V1.0.

The integrated report was approved by the Board and signed on its behalf by:

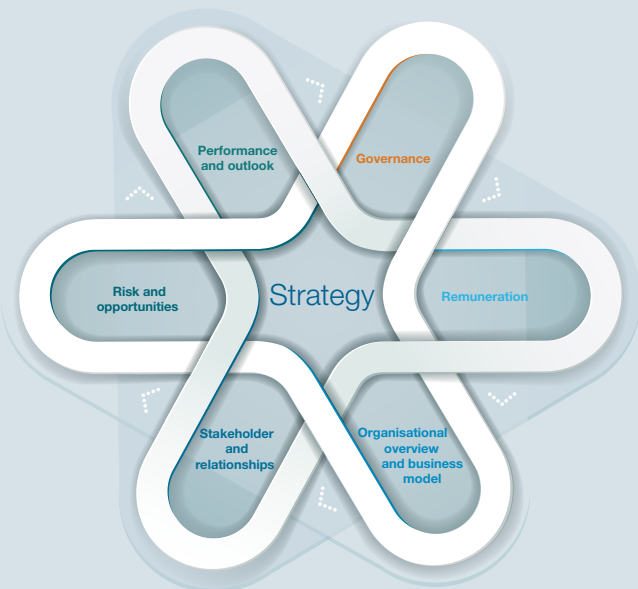
Mahomed Seedat
Chairman

About Aveng


Reporting philosophy

Aveng considers the integrated reporting journey a process to transform the way we effectively communicate information that is material to the way we create and sustain value with our stakeholders.

Reporting on what matters



Feedback

We welcome any feedback on our suite of reports to ensure that we continue to disclose information that is pertinent. Please refer questions or suggestions to info@avenggroup.com 

Key features of 2016

Strategic execution

The Group delivered on its strategic initiatives to improve liquidity. Two strategic transactions concluded.

 [see page 41.](#)

Cost reduction

Substantial restructuring has been implemented to enable profitability at current market levels. We continue to maintain cost control.

 [see page 40.](#)

Stronger South African construction business

Substantial improvement has been achieved in the performance of Aveng Grinaker-LTA which is positioned to continue its turnaround in current market conditions.

 [see pages 42 to 45.](#) 

Effective leadership

Stable and decisive management teams are supported by strategically aligned performance management and Aveng's core values.

 [see pages 44 and 45.](#)

Aveng focused and positioned for improved profitability

The majority of our domestic businesses are resilient and sufficiently optimised to capitalise on growth opportunities.

 [see pages 40, 45 and 46.](#)

Salient features

Performance

Financial performance

Revenue

R33,8 billion

Decrease of 23% from R43,9 billion at June 2015

Net operating earnings / (loss)

R146 million

Improvement from R(288) million at June 2015

Loss per share

25,4 cents

Improvement of 78% from 114,8 cents at June 2015

Headline loss per share

75,2 cents

Improvement of 48% from 144,3 cents at June 2015

Improved liquidity

due to property sales and cash generation in South African operations

Non-financial performance

Zero fatalities

under direct supervision of Aveng

Improved performance in the All Injury Frequency Rate (AIFR)

reduced by 22% to 2,7

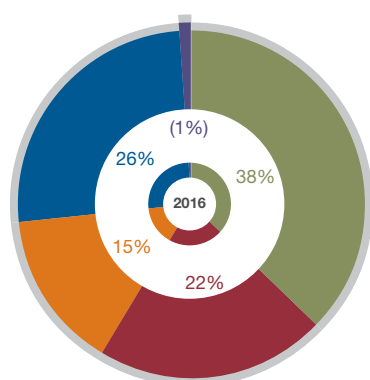
Continued focus on **road safety** in South Africa

B-BBEE rating

Level 2

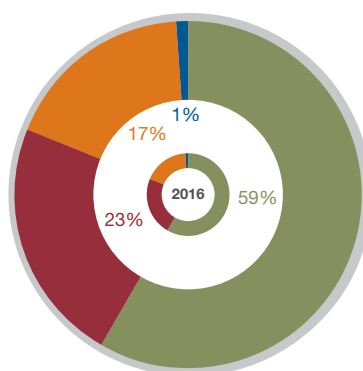
(2015: level 2)

Revenue by segment



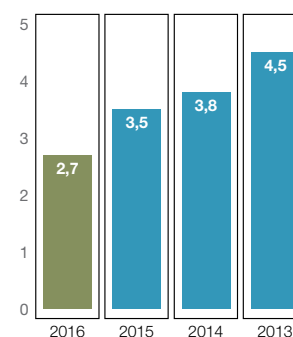
- Construction and Engineering: Australasia and Asia
- Construction and Engineering: South Africa and rest of Africa
- Mining
- Manufacturing and Processing
- Other

Two-year order book by segment



- Construction and Engineering: Australasia and Asia
- Construction and Engineering: South Africa and rest of Africa
- Mining
- Manufacturing and Processing

AIFR trend (per 200 000 hours)



Group organogram

Markets in which we operate

Buildings

Commercial and civil



Roads & Rail

Construction, tunnels and bridges



Oil & Gas

Plants and pipelines



Mining

Surface and underground



Marine

Ports and sea infrastructure



Power

Fossil fuel, renewables and hydroelectric transmissions



Water

Reticulation, effluent and dams



Process & Industrial

Buildings and plant



Construction and Engineering: South Africa and rest of Africa



Construction and Engineering: Australasia and Asia



Mining



Manufacturing and Processing



Business units

Aveng Grinaker-LTA Buildings & Coastal

Aveng Grinaker-LTA Civil Engineering

Aveng Grinaker-LTA Mechanical & Electrical

Aveng Water

Australia

Southeast Asia

New Zealand and Pacific

Built Environs

Aveng Moolmans

Aveng Shafts & Underground

Aveng Trident Steel

Aveng Steeleedale

Aveng ACS

Aveng DFC

Aveng Duraset

Aveng Infraset

Aveng Rail

Business units closed during the year:
Aveng Engineering, Aveng Facades and Aveng Steel Fabrication.

Our footprint



Africa > 60% of revenue

Australia, New Zealand and Pacific > 25% of revenue

Southeast Asia > 10% of revenue



◆ Aveng operates in a diverse range of sectoral and geographic markets. Our primary geographic markets are southern Africa and Australia and we leverage our presence in these markets to pursue growth opportunities.

Market review

Aveng operates mainly in South Africa and other markets in sub-Saharan Africa, Australasia and Southeast Asia. Operating conditions in these markets remain difficult due to the sustained global economic downturn and intense competition.

Infrastructure investment

South Africa

The South African construction industry continues to be impacted by low levels of public sector investment in major infrastructure programmes and the sustained downturn in commodity prices, although Aveng has benefited from growth opportunities in the commercial, residential and healthcare building sectors. Public sector expenditure on transport, energy and water infrastructure is contributing to an increase in opportunities in these sectors as the government addresses inadequate maintenance of transport infrastructure and undersupply of potable water and energy facilities.

Australasia and Southeast Asia

The completion of major oil and gas projects in 2015 marked the end of a decade-long resources boom in Australia. This has been partially offset by increased government expenditure on transport, power and water infrastructure.

The New Zealand construction market remains steady, with road and water projects driven by urban developments in Auckland and the Christchurch rebuild.

Urbanisation and population growth continue to underpin growth in Southeast Asian infrastructure markets which have also been impacted by a decline in mining and oil and gas opportunities.

Mining

The global mining industry remains under considerable pressure. In South Africa, this has resulted in numerous mining contract cancellations, scope reductions and requests for margin discounts at continuing operations. This decline appears to have stabilised but mining contractors are unlikely to experience the benefits of a recovery in the industry for another 12 to 18 months.

Manufacturing

The manufacturing industry has been impacted by slow demand from the construction and mining sectors and reduced expenditure on rail maintenance. Aveng has expanded into new geographic and product sectors to mitigate weakness in its traditional markets.

The South African steel market has been adversely impacted by lower priced imports from China, coupled with poor domestic demand and excess capacity in global markets. Volumes stabilised in the second half of the year as international prices increased but project opportunity in the domestic market remains subdued.

More detailed information on Aveng's markets and operating environment is available in the executive review on pages 40 to 51 and the operational reviews on pages 52 to 74.



Our business model

STRATEGY

Aveng optimises its business model through the effective execution of its strategy to achieve its business objectives and vision.



Aveng's strategy is being executed in three phases:

- Recover and stabilise – largely complete
- Position for profitable growth – currently underway
- Realise growth and sustain profitability – currently underway

Additional information on Aveng's strategy is available on pages 28 to 34.



Our capital capabilities

Our capital analysis provides insight into the resource capabilities and challenges the Group faces to ensure that Aveng has the required resources to execute its strategy and adapt its business model accordingly. The analysis below sets out a synopsis of the current status of the capabilities of the Group and its aspirations to build the capabilities necessary to effectively execute the Group's strategy.



Financial capital

The measure of Aveng's future success will be its ability to operate profitably and generate positive free cash flows for growth, servicing of borrowings and regular dividend payments to shareholders.

The *recover and stabilise* phase of the strategy is largely complete and was characterised by the following outcomes:

Liquidity

- ◆ The issue of a convertible bond for R2 billion in 2014.
- ◆ The disposal of the Electrix business in 2015.
- ◆ The sale of the Group's property portfolio in 2016.
- ◆ The proposed sale of the Group's infrastructure investments subsequent to 30 June 2016.

Cash flow

The cash flow performance in 2016 was underpinned by the utilisation of advance payments and the repayment of an advance linked to the QCLNG contract. Cash flow in the South African operations remains strong and contributes to the Group's financial health.

Borrowings

Borrowings have increased with part of the QCLNG advance being repaid with debt.

At 30 June 2016 Aveng had R1,7 billion of liquidity headroom. The Group has access to adequate banking facilities.

Contracts

The Group ensures that contracts entered into are viable from a liquidity perspective and that the Group is not exposed to liquidity risk when carrying out its obligations.

Additional financial commentary is provided in the executive review on pages 40 to 51.



Human capital

The ability of the Group to effectively execute its strategic priorities depends on the quality and decisiveness of leadership and the skills and experience of its people.

An intensive continuous process is in place to assess the leadership and skills requirements at each operating group and to develop action plans to identify leadership and skills gaps, including reward systems and the transformation needs of the Group.

There is also a drive to ensure that the right people are deployed in the right positions with roles that are compatible with their capabilities. Notwithstanding the challenge posed by the shortage of highly experienced and skilled staff required in the industry, there is a clear need for transformation of businesses. Aveng recognises the need to be sensitive to socio-economic development policies, while harnessing skills over a vast geographic spread of projects.

Through the Aveng DNA, the Group aspires to a culture of honesty, safety and accountability in all we do.

A number of our strategic focuses include developing and retaining our people through communication, skills development, performance management and culture management.

Refer to pages 30 and 46.

Further insight into our people, their wellbeing and transformation initiatives and performance is provided in the human resources, safety, health and wellness and transformation sections of the sustainability overview available at www.aveng.co.za

The Aveng DNA defines our aspirational culture, values and desired behaviour and is the foundation of the key focus areas of our people management.





Social and relationship capital

Aveng recognises that a proactive and robust engagement process with stakeholders is critical in understanding their views and concerns. The ability to effectively identify material issues pertaining to stakeholders, including risks and opportunities, and effectively respond to these issues will enable us to create and maintain value.

Our stakeholder engagement and communication programmes are directed at re-establishing and building relationships and reputation with our key stakeholders.

More insight into our stakeholder engagement and relationship programmes is available on pages 20 and 21.



Intellectual capital

The corporate memory and know-how of Aveng's construction, engineering and manufacturing processes are at the cornerstone of the Group's competitive advantage in the industry.

Over 125 years of development and innovation, the Group has established capabilities and expertise in the sectors in which it operates. These include the mega project capabilities of McConnell Dowell, specialised and broad-based project capability and expertise of Aveng Grinaker-LTA, deep-level shaft sinking and surface mining capabilities of Aveng Mining, a technology advantage in Aveng Water and the automotive, steel and other patents and brands of Aveng Steel and Aveng Manufacturing. The focus of the Group is on the profitable commercialisation of these capabilities, areas of expertise and innovation.



Manufactured capital

The nature of the Group's construction and mining operations is such that the equipment requirements are not particularly specialised and thus barriers to entry are not formidable. However, the equipment requirements of the mining and certain construction operations are capital intensive and require significant cash investments. Alternative models of financing such equipment are occasionally pursued.

Within the South African and Australian construction businesses most manufactured capital is project specific and therefore factored into project capital expenditure decisions. It is usually disposed of thereafter unless it can be used on other projects. For operations that require manufactured capital on an ongoing basis, such as Aveng Steel, these facilities are modern, well maintained and all still have considerable useful lives. Some facilities are quite specialised, designed to produce complex pipework for industrial plants and components for the new South African coal-fired power stations.

The Aveng Manufacturing operating group has a variety of plant, with varying age, and a few examples of modern, state-of-the-art technology, such as paving and roof tile facilities. Various of these facilities are currently operating at capacity. The Group is investing in increasing capacity and increasing efficiencies. Similarly, mining assets operate within accepted value-life expectancy and maintenance levels. Where costs to run and maintain are not sustainable, these areas are reviewed for focused capital investment. Idle fleet in the mining business is well maintained and ready for future deployment at new contracts or as part of the Group's replacement programme.



Natural capital

Access to construction and engineering materials is generally readily available. However, these input costs are volatile and change in response to underlying commodity price fluctuations.

Access to raw materials for the manufacturing and processing businesses, particularly automotive steel, is an imperative and similarly highly sensitive to commodity price fluctuations.

Aveng looks to strategically source many of the materials used in its operations and supply of services from suppliers that are aligned with the Group's transformation objectives.

Access to, and the cost of electricity and water is essential for the manufacturing and mining businesses as well as certain parts of the engineering and construction businesses. Security of supply, business interruption and efficiency programmes are in place throughout the Group to ensure critical areas are adequately managed.

Further insight into our environmental initiatives and performance is provided in the environmental section of the sustainability overview available at www.aveng.co.za.



Additional insight into our intellectual and operational activities is available in the executive review on pages 40 to 51 and the operational reviews on pages 52 to 74.



Board of directors

Appointed: July 2012



Mahomed Seedat (60)
Independent non-executive chairman
BEng (Electrical), PMD, GCC
Chairman of the Board
Chairman of social, ethics and transformation committee
Member of remuneration and nomination committee; safety, health and environmental committee; investment committee; risk committee and tender risk committee

Appointed: December 2013



Eric Diack (59)
Independent non-executive director
BAcc, CA(SA), AMP Harvard and UCT
Chairman of audit committee and investment committee
Member of risk committee and tender risk committee

Appointed: March 2011



Peter Erasmus (63)
Independent non-executive director
Pr Eng, BSc (Civil) (Hons), BCom (*cum laude*), MSAICE
Chairman of risk committee
Member of tender risk committee

Appointed: November 2015



Sean Flanagan (56)
Independent non-executive director
BSc (Building)
Member of the tender risk committee

Appointed: September 2009



May Hermanus (56)
Independent non-executive director
BSc (Geology), MSc (Physical Metallurgy), Takemi Fellow, Harvard University
Chairman of safety, health and environmental committee

Appointed: August 2015



Philip Hourquebie (63)
Independent non-executive director
CA(SA), BCom (Hons), BAcc
Member of investment committee and audit committee

Appointed: July 2012



Michael Kilbride (64)
Independent non-executive director
BSc (Hons) Mining Engineering (RSM, London University), MDP (Unisa), SEP (London Business School)

Member of investment committee; safety, health and environmental committee and tender risk committee

Appointed: September 2014



Adrian Macartney (48)
Group CFO
BCom, BCompt (Hons), CA(SA)

Member of executive committee and tender risk committee

Appointed: October 2007



Juba Mashaba (50)
Group executive director
BA, LLB (Swaziland), Human Resources Executive Programme (University of Michigan Business School)

Member of executive committee

Appointed: December 2010



Thoko Mokgosi-Mwantembe (55)
Independent non-executive director
Dip Education (Swaziland), BSc (Swaziland), MSc (UK), SEP (Harvard), MCRP (IMD)

*Chairman of remuneration and nomination committee
Member of social, ethics and transformation committee*

Appointed: January 2014



Kholeka Mzondeki (48)
Independent non-executive director
BCom ACCA (UK)

Member of audit committee and social, ethics and transformation committee

Appointed: September 2010



Kobus Verster (50)
Chief executive officer
BCom (Hons), MBL, EMP

Member of executive committee and tender risk committee

Executive directors, key and senior management



Kobus Verster (50)

Chief executive officer

26 years' industry and related experience.

Six years with Aveng.



Juba Mashaba (50)

Group executive director

21 years' industry and related experience.

Nine years with Aveng.



Adrian Macartney (48)

Group CFO

22 years' industry and related experience.

Two years with Aveng.



Hercu Aucamp (48)

Managing director of Aveng Steel

27 years' industry and related experience.

Five years with Aveng.



Chris Botha (44)

Managing director of Aveng Grinaker-LTA

23 years' industry and related experience.

Three years with Aveng.

Executive directors, key and senior management at 5 August 2016.



Scott Cummins (54)

Managing director of McConnell Dowell Corporation Ltd

26 years' industry and related experience.

Joined Aveng in September 2015.



Solly Letsoalo (54)

Managing director of Aveng Manufacturing

31 years' industry and related experience.

Seven years with Aveng.



Stuart White (52)

Managing director of Aveng Mining

35 years' industry and related experience.

35 years with Aveng.



Dharmesh Kalyan (49)

Managing director of Aveng Capital Partners

26 years' industry and related experience.

Five years with Aveng.



Grant Stock (47)

Commercial executive

21 years' industry and related experience.

One year with Aveng.



Michelle Nana (48)

Company secretary

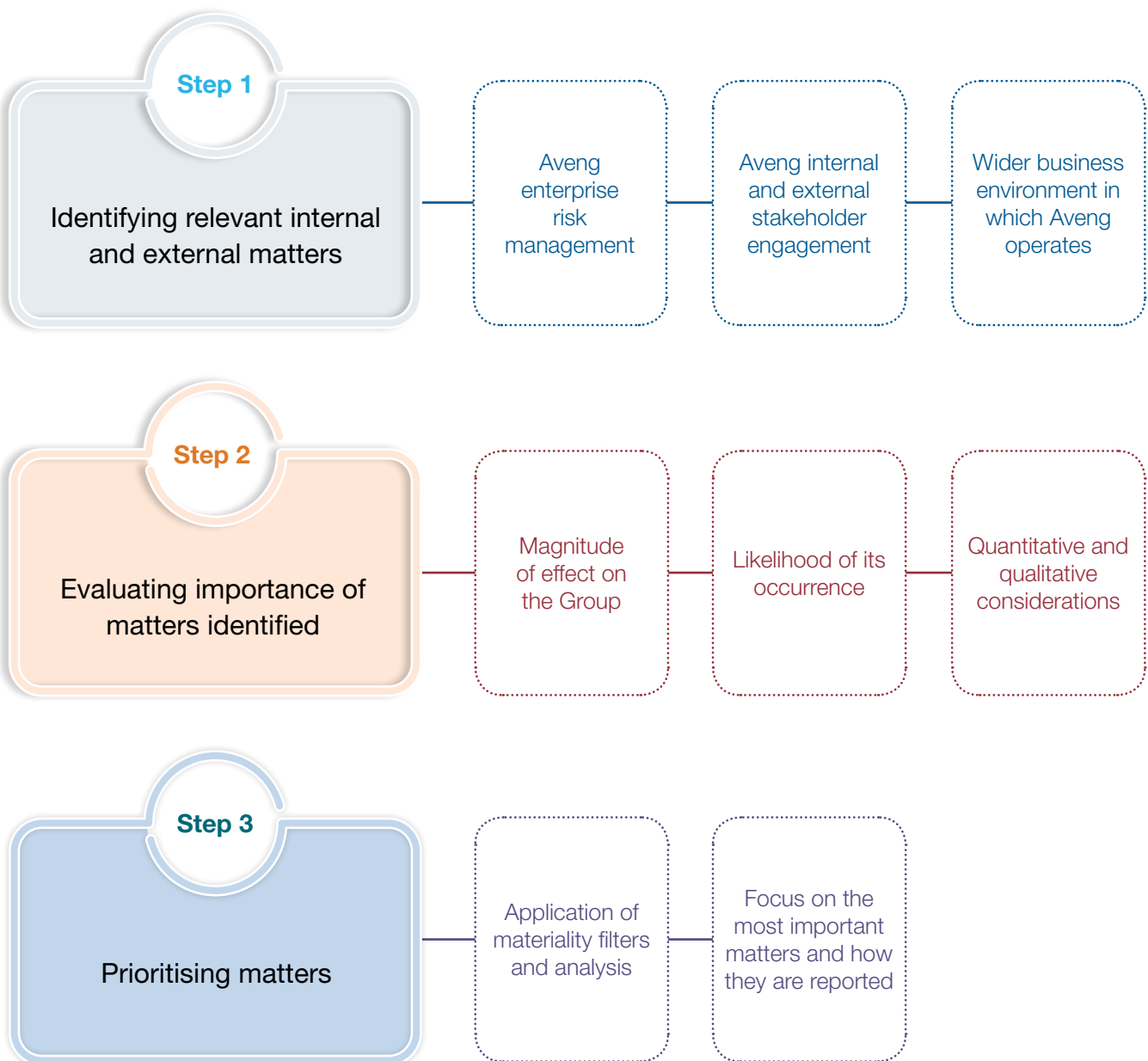
14 years' industry and related experience.

Four years with Aveng.

Material matters determination process

Aveng has formalised and strengthened its ability to identify, evaluate and manage risks and opportunities and, as a consequence, the Group has made significant progress in mitigating risk, while leveraging opportunity.

Aveng defines materiality of matters for reporting purposes as: matters that materially affect the Group's ability to create and sustain value over the short, medium and long term. Aveng's material matters determination process, largely informed by the International Integrated Reporting Council (IIRC) guidance, is illustrated below, followed by brief commentary on each element. The specific material matters are discussed further on pages 24 to 26.



Identifying relevant internal and external matters

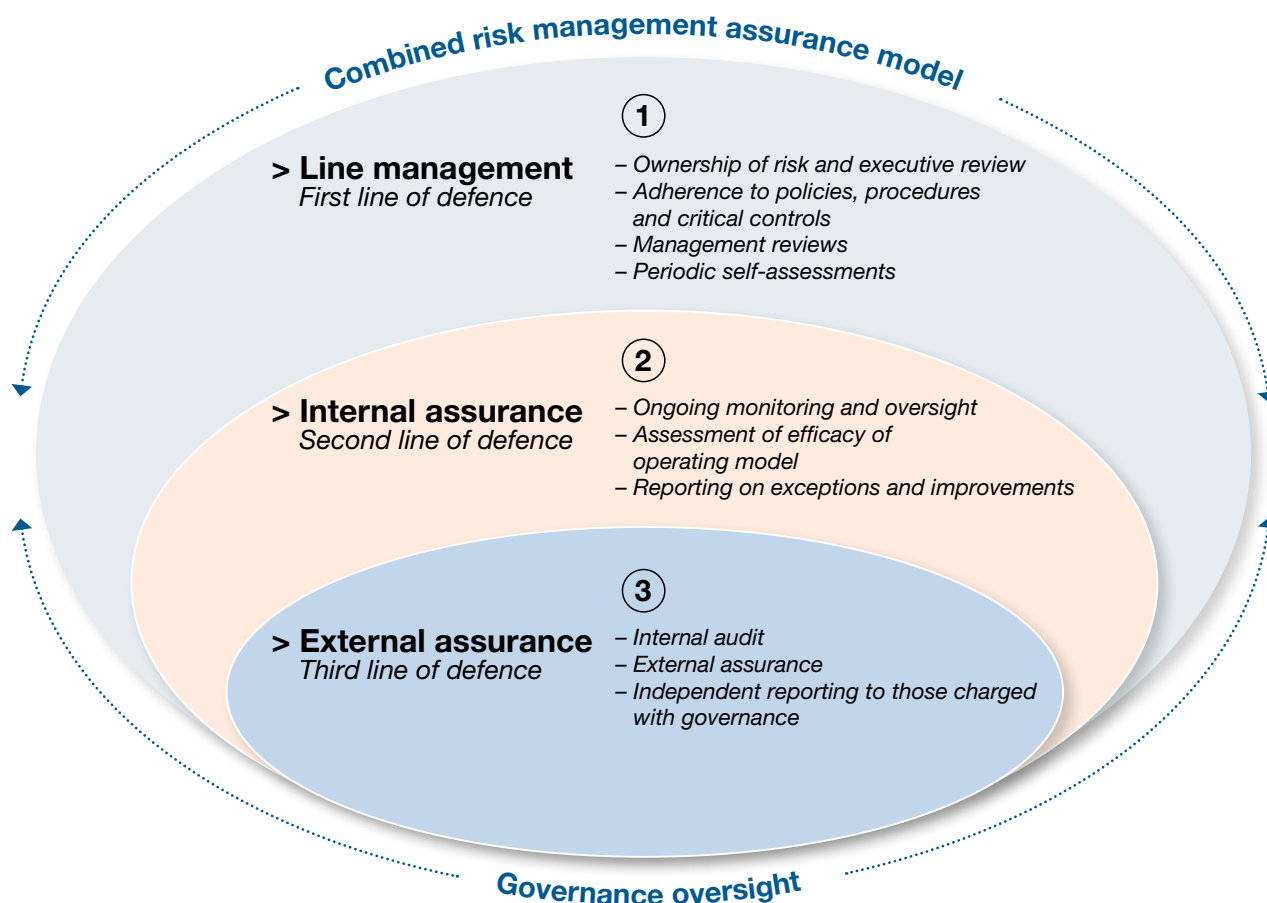
Aveng enterprise risk management

Risk is inherent in all business activities. Our operational performance and the impact this has on our financial position is a critical risk focal point. Risk is also intrinsic in the way we manage our resources and relationships, the impact we have on the safety and wellbeing of people, and our impact on the communities and the natural environments within which Aveng operates.

Aveng continuously reviews and improves risk management processes and has adopted the concept of “three lines of defence” to strengthen risk management and ensure adequate assurance levels. The three lines of defence jointly form the Group’s combined risk management assurance model. The levels of assurance obtained from each line of defence need to be optimally balanced and assurance levels are currently shifting from the third line and second line in certain areas in order to enhance ownership and management of risk and control compliance by first-line management.

Risk management approach

The adoption of a three lines of defence model of risk management with clearly defined roles and responsibilities to identify, evaluate and manage opportunities, threats and uncertainties that could influence the Group’s results, ensures both regulatory compliance and compliance with group policies.



As the first line of defence, operational management has ownership, responsibility and accountability for assessing, controlling and mitigating risks, while maintaining effective internal controls to identify risks and ensure accurate reporting. This includes preparing documented project execution strategies, conducting rigorous management reviews of bids before submission, approving key project level appointments, conducting regular senior management reviews of ongoing projects, assuring adequate software systems to facilitate timely project level reporting and identification of deviations from plan.

As the second line of defence, the commercial and risk management functions monitor the effectiveness of the operating model and implementation of effective risk management practices by operational management. This assists the risk owners in reporting adequate risk-related information up and down the organisation and facilitates risk management processes and detailed peer reviews on key contracts when they are approximately 20% complete, to identify risks and opportunities and agree on improvement strategies. In addition, regulatory compliance is monitored and guidance provided on compliance requirements.

Material matters determination process continued

As the third line of defence, the internal auditing function, through a risk-based approach, provides assurance on the effectiveness of governance, risk management and internal control to the committees of the Board, supplemented by the external audit function which independently verifies the appropriateness of financial results and certain non-financial data.

Governance oversight

The Board's risk committee and audit committee act as the governing bodies for the combined risk management assurance model.

The risk committee oversees the activities of all three lines of defence and receives reports from the group commercial executive on the efficacy of the three lines of defence model, with the audit committee receiving reports from internal and external audit (third line of defence). As the tender approval process is a critical process in the project lifecycle, this process has been reviewed and bolstered. A new layer of oversight has been added whereby tenders which previously went directly to the board tender committee (a subcommittee of the board risk committee), now firstly go to an internal Aveng group tender executive committee. This internal committee comprises the group CEO, CFO, commercial executive, legal counsel, risk manager as well as two external construction industry experts. The internal Aveng committee reviews all major bids and high-risk projects to satisfy itself that all technical, programme, commercial and project risks are adequately dealt with in the preparation of the bid. If this committee approves any tender that is rated as requiring risk committee approval, it is then presented to the board tender committee which must satisfy itself that appropriate business processes have been followed in the preparation of the bid and that risks have been considered and appropriately transferred or mitigated prior to bid submission. Particular attention is paid to the key commercial terms. A mandate is given to the relevant operating group specifying the terms under which a contract may be accepted.

The board risk committee reviews all group material risks, major and problematic projects with specific focus on changes in costs, commercial claims, margins and any other items of concern that occurred since the prior reporting period. Peer reviews and "breaking news" on underperforming contracts are brought to the attention of the risk committee. Concerns raised by the committee are communicated to the relevant operating groups for management actions. Lessons learnt of underperforming or highly successful projects are presented to the risk committee, thereby providing a feedback loop to enable continuous improvement in processes and project execution.

The audit committee oversees the activities of the external and internal audit functions and receives input on the adequacy of financial reporting and control mechanisms. It relies on the input of the risk committee on material risk issues that could impact the financial results.

Key business risks

Key business risks are identified as internal or external risks that have the potential to cause significant financial loss, or affect the safety and wellbeing of employees, matters which may fundamentally undermine the Group's competitive position and adversely impact its reputation. A group risk register is updated quarterly and reported to the Board and the risk committee. This information is used to determine the strategic interventions and mitigation measures required to minimise the impact of risks. The top business risks emerging from enterprise risk management (ERM) for the period are:

- ◆ Safety (number 1 in 2015)
- ◆ Macro-economic environment and securing quality work (up from number 4 in 2015)
- ◆ Management of working capital and liquidity (down from number 2 in 2015)
- ◆ Operational performance (down from number 3 in 2015)
- ◆ Transformation; and labour instability and costs in South Africa (up from number 7 in 2015)
- ◆ Talent management (down from number 5 in 2015)
- ◆ Reputation (number 6 in 2015)

Stakeholder engagement

Aveng recognises that proactive and robust engagement with stakeholders is critical in understanding their views and concerns. The ability to effectively identify material matters relating to stakeholders, including risks and opportunities, and effectively respond to these matters will enable us to create and sustain value.

Aveng also recognises the need to proactively restore the confidence and trust of its key stakeholders by addressing reputational damage that may have been caused by the findings of the Competition Commission's investigation into anti-competitive behaviour in the construction industry, and the relative underperformance of the business in recent years. The Group has engaged with key internal and external stakeholders to re-establish and build relationships based on trust.

Aveng strives to communicate progress with the *recover and stabilise*, *position for profitable growth*, and *realise growth and sustain profitability* phases of the Group's strategy in a clear and transparent manner. Effective execution of this strategy will be core to rebuilding the Group's reputation as a sound business with a management team able to fulfil its commitments. A sustained improvement in the underlying performances of the majority of Aveng's business units confirms that the *recover and stabilise* phase of the strategy has been largely achieved.

Aveng's primary stakeholders are employees, shareholders, the investment community, and media, trade unions, customers and clients, subcontractors, suppliers, service providers and business partners, government and regulatory and industry bodies. We encourage dialogue and feedback at all levels in the business.

A stakeholder engagement plan and report-back process have been implemented in which operating groups identify their material stakeholders based on their current or prospective positive or negative impact on the business. There is a specific focus on how effectively we engage with each stakeholder and how we can elevate the engagement to the next level to build and sustain stronger relationships.

The table below sets out existing methods of engagement with our key stakeholders and their issues and expectations:

Stakeholders	Nature of engagement	Stakeholder issues and expectations
Customers and clients Private and public across all sectors covered in the Group's business model. Refer to pages 10 to 13.	Customer meetings and site visits, conferences, events and exhibitions, written communication, contracts and service level agreements	<ul style="list-style-type: none"> ◆ Commercial issues / claims ◆ Delivery on tenders / bids ◆ Relationships ◆ Reputation management (financial performance and negative coverage)
Employees South African operations – 13 495 (salaried and waged employees) Australian operations – 3 453 (salaried, project and waged employees)	Culture surveys and wellness days, roundtable engagement forums and training sessions, safety inspections, performance reviews, leadership conferences, employee publications and bulletins, company Intranet, and senior management interaction	<ul style="list-style-type: none"> ◆ Employee engagement ◆ Retention and talent identification ◆ Cohesive high-performance culture and values
Shareholders and investment community South Africa-based (74%) North America-based (13%) Europe-based (8%) Lenders and analysts	Financial reports, trading updates and statements, results presentations and roadshows, AGM, site visits, webcast sessions, individual meetings, the website, corporate newsletters and conferences	<ul style="list-style-type: none"> ◆ Return on investment ◆ Claims recovery ◆ Strength of balance sheet ◆ More regular engagement ◆ Brand positioning ◆ Reputation management (financial performance)
Trade unions NUM, NUMSA, UASA, AMCU and Solidarity in South Africa AWU and CFMEU in Australia	Each operating group has its own agreements with its respective trade unions and engages through various methods and at various intervals	<ul style="list-style-type: none"> ◆ Tough labour relations environment ◆ High propensity for strikes, including unprotected strikes ◆ Proliferation of unions
Contractors, suppliers, service providers and business partners Throughout the value chain across all sectors covered in the Group's business model. Refer to pages 10 to 13.	Supplier meetings, workshops, presentations, industry body meetings, events and exhibitions, project steering committees, site and project visits, contracts and service agreements and project process meetings	<ul style="list-style-type: none"> ◆ Impact of procurement, EE and SD decisions on the revised B-BBEE scorecard in South Africa ◆ Repercussions of not complying with revised codes ◆ Open and fair tender process ◆ On time payments ◆ Sustainable business relationships
Government and regulatory bodies National, provincial, state, regional and local government, parastatals, construction regulatory boards, Competition Commission, Construction Sector Charter Council, JSE, Fair Work Commission	Submission of compliance reports, formal and informal meetings, consultations and workshops (e.g. SAFCEC-led industry CEO forum), conferences, seminars and presentations, and written communication	<ul style="list-style-type: none"> ◆ Compliance to legislation (i.e. labour relations, environmental, competition, etc) across various geographies and industries in which Aveng operates ◆ Inconsistent application of legislation and policies at various levels of government structures
Industry SAFCEC, MBSA and SEIFSA	Representation on key industry bodies, leadership meetings, correspondence, newsletters and sponsorships	<ul style="list-style-type: none"> ◆ Influence of industry bodies on public policy

Material matters determination process continued

Business environment

Aveng operates in a challenging external environment across various key sectors and markets.

Some of the key drivers affecting the Group's sectoral and geographic markets are discussed below:

The economic outlook for South Africa remains subdued as a result of sustained weakness in the global economy and factors unique to the domestic economy, such as policy uncertainty and labour instability. The prolonged delay in public sector infrastructure investment and the downturn in commodity prices – which has led to the cancellation or postponement of private sector capital expenditure in the mining industry – have adversely impacted many of Aveng's key sectors. This has increased competition for a limited number of available projects, placing more pressure on profit margins.

Aveng has mitigated the impact of these external impacts by diversifying into market sectors that offer growth opportunities, including the commercial and industrial building, power, municipal infrastructure and water treatment markets, as well as expanding into geographic markets beyond South Africa and strengthening engagement with key clients.

Global economic volatility and the prolonged downturn in commodity and oil prices have also slowed the pace of growth in many economies in the rest of Africa.

This has delayed the momentum of Aveng's strategy to expand into markets north of South Africa. However, the Group has continued to secure projects in sub-Saharan Africa and the region offers potential medium term to long term opportunities as growing middle-class populations fuel the demand for infrastructure development and increased power generation.

Investment in the mining and resources sector in Australasia and Asia has declined significantly, in line with global economic trends.

However, investment in transport and other social infrastructure in Australia and Southeast Asia has increased, particularly in Singapore where the Land Transport Authority intends to double the current rail network by 2030. Competition for available work is also a characteristic of these markets.

The New Zealand economy has remained relatively buoyant, with opportunities arising from an extensive public sector infrastructure development programme.

Evaluating importance of matters identified

Perspectives that inform the material matters include:

- ◆ Aveng risk management
- ◆ Stakeholder engagement
- ◆ The business environment, as previously defined.

Magnitude of effect on the Group

Once the relevant material issues are identified, these issues are assessed based on their potential impact on Aveng. The assessed impacts of these material issues focuses on:

1. Impact on the safety of our people
2. Loss of profit or increase in capital cost
3. Delays in achieving strategic business objectives
4. Legal ramifications
5. Environmental impact
6. Reputational damage.

Likelihood of occurrence

These issues are assessed according to the likelihood that they will occur based on the following ranges:

1. Rare chance of occurrence (1% – 3%)
2. Unlikely chance of occurrence (3% – 10%)
3. Possible chance of occurrence (10% – 30%)
4. Likely chance of occurrence (30% – 60%)
5. Almost certain (60% – 100%)

In instances where an issue has already occurred, lessons learnt are undertaken to ascertain the likelihood of an issue re-occurring and ensure that correct processes are implemented to mitigate reoccurrence.

Quantitative and qualitative considerations

Quantitative considerations focus largely on financial impacts (loss of profit), an increase in capital cost and the ability to achieve business objectives. Qualitative considerations focus primarily on safety, legal, environmental and reputational impacts. These are assessed based on the likelihood of occurrence.

Prioritising matters

After identifying potential material issues, Aveng performed a correlation exercise. Several sources were consulted to

determine how often the risks already identified appeared in other sources that relate to Aveng and the industries it operates in. These included investor feedback, mega-trends, emerging risks and opportunities, Aveng strategy and business model, and geographic and sector outlook. The more prevalent the risks and opportunities were in different sources, the greater the evaluation of these issues against qualitative and quantitative factors which informed the likelihood and the impact of these matters on Aveng.

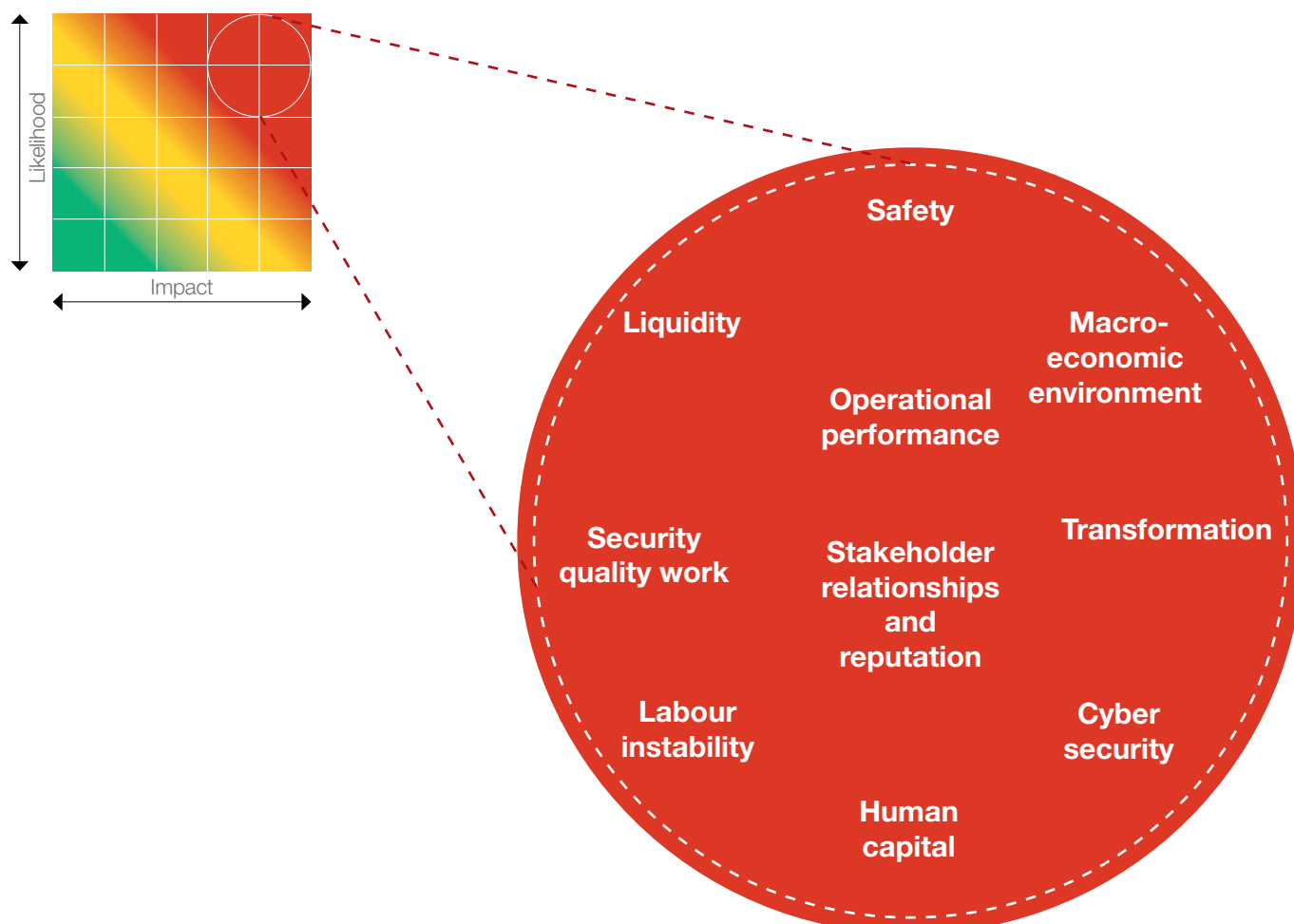
Furthermore, the Board considered what constitutes material matters to the Group with further interrogation through various forums, such as the Board and board committee meetings.

The identified material matters were ranked based on their potential probability of occurring in the Group as well as their potential quantitative and qualitative impact to the Group.



The resultant matters were then plotted on a heat map to demonstrate that only the most material matters emerge and are discussed below in further detail.

Focus on the most important matters

The diagram below lists the top business risks emerging from the enterprise risk management for the period. These risks are discussed more fully on pages 24 to 26.



Material matters

Material matter		Strategic response
Controllable	1 	Safety Aveng employs a large workforce and is responsible for ensuring that its operations are safe for employees, contractors and clients. Employee safety and wellbeing is critical to our ability to embed a high performance culture and integral to the way we do business. Poor safety performance weakens productivity, and may attract regulatory sanction. Reputational damage may impact the Group's ability to procure work.
	2 	Liquidity The Group's maintenance of sufficient working capital through the business cycle reduces exposure to refinancing and liquidity risk which influences credit facilities and the ability to raise cost-effective borrowings.
	3 	Macro-economic environment As the Group operates across different sectors and geographies, it is affected by economic dynamics beyond the control of Aveng. The South African economy, mining and steel sectors are forecast to remain subdued, negatively impacting the businesses operating within these environments. There are, however, infrastructure opportunities within Southeast Asia, New Zealand and Australia.
		<ul style="list-style-type: none"> Improving the trend of visible felt leadership (VFL) to further entrench a safety culture Improving leading indicators such as near-miss reporting, potential for harm audits and VFLs / VMRs compared to prior years Increasing safety, health and environment management systems certification across the operating groups Increasing the use of the employee wellness programmes throughout the South African operations. These measures have contributed to an improvement in the Group's AIFR to 2,7.
		<ul style="list-style-type: none"> Successful in closing out a significant number of claims, particularly in the South African operations Robust working capital cash flow management and the completion of loss-making projects contributed to positive cash flow in the South African businesses and provided partial funding for McConnell Dowell Despite continued pressure from banks in South Africa and Australia, Aveng management achieved extensions on revolving credit facilities at Aveng Limited and working capital facilities for McConnell Dowell, with additional insurance bonding facilities Resizing and optimising the overhead across the Group had an initial negative cash impact in the final quarter of 2016 but will result in a positive cash flow impact in future.
		<ul style="list-style-type: none"> Rightsized the Group by optimising the overhead and aligning capacity with available opportunities Maintaining key stakeholder relationships enables conclusion of claims and winning of new work in a depressed cycle Closed non-performing business units and placed other factories on care and maintenance Adapted the Group's approach to tendering and ensuring that tendered margins are sustainable Greater focus on product type and range Renewed focus on efficiencies and productivities Improve strategic procurement to lower cost base.

* Specific to South Africa



Increase in potential impact



Decline in potential impact



No change in potential impact

Material matter		Strategic response
Controllable	4 	Operational performance Operational performance drives the financial performance of the Group. <ul style="list-style-type: none"> ◆ Stabilised management of Aveng Grinaker-LTA resulting in improved financial performance ◆ Improved several first line of defence measures across the Group ◆ Appointed new MD and simplified management structures of McConnell Dowell ◆ Consolidated Aveng Shafts & Underground and Aveng Moolmans under Aveng Mining and aligned it with Aveng Moolmans' high-performance operating culture ◆ Focused on closing out loss-making projects ◆ Focused on improving efficiencies and productivities ◆ Maintained third line of defence (internal and external audits) across all Aveng business units.
	5 	Securing quality work Quality work drives revenue and strengthens the long term sustainability of Aveng as a global company. <ul style="list-style-type: none"> ◆ Increased focus on balancing order book growth against project risk profiles when tendering in regions and sectors ◆ Application of the three lines of defence model to improve tendering procedures ◆ Heightened focus on winning projects where the Group has a record of technical experience and successful execution ◆ Continued focus on key client relationships to promote negotiated contracts with equitable terms ◆ Constant focus on group synergies ◆ Proactive alignment of the Group's capacity with opportunities across its sectors and geographies.
	6 	Transformation* Aveng regained its level 2 B-BBEE rating based on its 2015 performance. However, the application of revised B-BBEE codes are likely to impact the Group's transformation rating, which may negatively impact its ability to secure projects in South Africa, particularly within the public sector. <ul style="list-style-type: none"> ◆ Implemented a three-year transformation strategy to ensure compliance with the revised codes ◆ Ensured operating group strategies are aligned with the requirements of the new codes ◆ Strengthened the focus on recruitment, in-house development and training and alignment with CSI initiatives ◆ Achieved performance improvements in the areas of management control, employment equity, preferential procurement and skills development.

* Specific to South Africa



Increase in potential impact








Decline in potential impact



No change in potential impact

Material matters continued

Material matter			Strategic response
Uncontrollable	7 	Labour instability* Industrial unrest in South Africa results in project delays and disruptions affecting safety, productivity and profitability.	<ul style="list-style-type: none">◆ No major labour relations matters recorded in 2016◆ Implemented a proactive labour relations strategy with allowances in tenders for labour unrest◆ Strike mitigation plans are in place at each business unit◆ Increased line management engagement with labour and clients and less reliance on industrial relations management.
		8 	Stakeholder relationships and reputation The expectations of stakeholders can impact the Group's ability to create and sustain value. Negative perceptions may impact prospects for future work.
Controllable	9 	Human capital People are the Group's most important asset, and various specialist skills are required to deliver projects successfully. Loss of critical skills affects performance and execution and has a negative impact on earnings and the long-term sustainability of Aveng.	<ul style="list-style-type: none">◆ Strengthened and stable operational management is contributing positively to improved operational performance◆ A succession model has been developed for the top 40 Aveng senior managers◆ All senior team members across the Group have been assessed for competency, with specific interventions developed to address shortcomings◆ Remuneration strategies have been implemented to ensure retention of high performers◆ An Aveng culture survey has been undertaken in the South African operations.
		10 	Cyber security Cyber attacks may lead to the distribution of sensitive business information and result in a loss of revenue and earnings. The World Economic Forum's Global Risk Landscape in 2015 ranked the threat of cyber attacks higher than food crises, failure of financial mechanisms or institutions, terrorist attacks, asset bubbles and profound social instability in relation to impact and likelihood.
New and controllable	10 		

* Specific to South Africa



Increase in potential impact



Decline in potential impact



No change in potential impact